The mystery of the Adani coal imports that quietly doubled in value

Analysis of customs records suggests Indian conglomerate has been inflating fuel costs using offshore middlemen

Dan McCrum, **Chris Cook**, **David Sheppard** and **Max Harlow** in London OCTOBER 12 2023

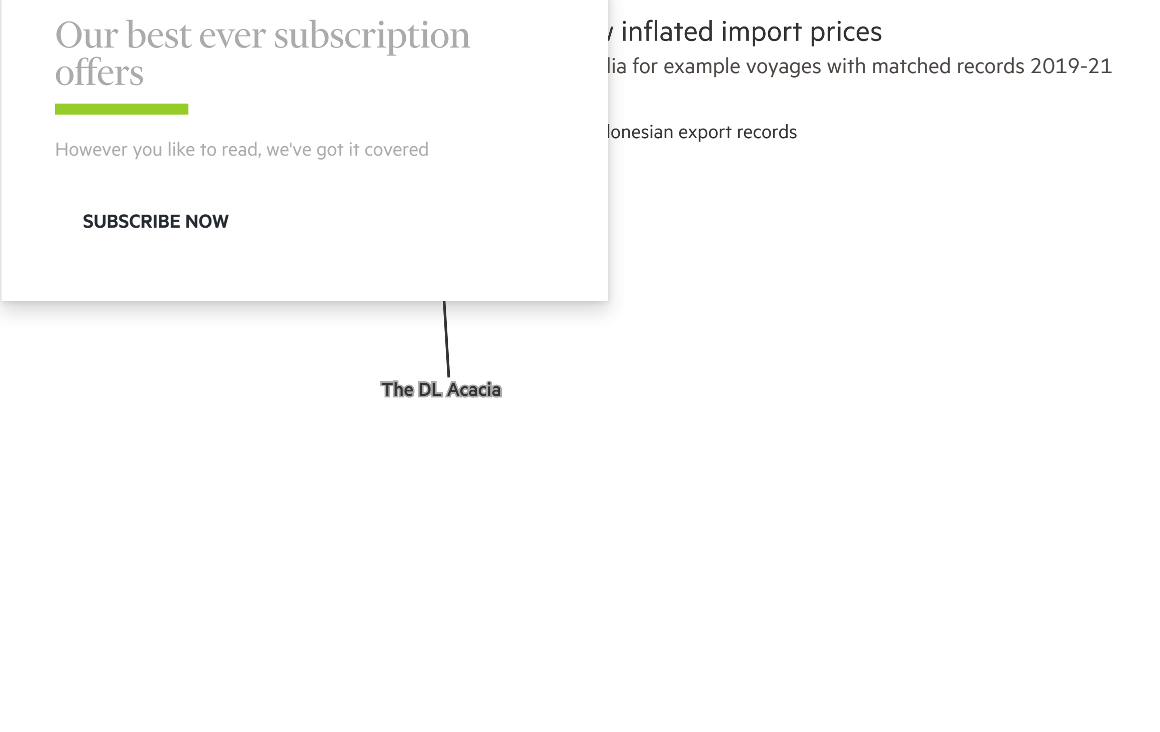
The Adani Group, the politically connected conglomerate that dominates large parts of India's economy, appears to have imported billions of dollars of coal at prices well above market value, according to customs records reviewed by the Financial Times.

The data supports longstanding allegations that Adani, the country's largest private coal importer, has been inflating fuel costs and led millions of Indian consumers and businesses to overpay for electricity.

The records show that over the past two years, Adani used offshore intermediaries in Taiwan, Dubai and Singapore to import $5bn-worth of coal at prices that were at times more than double the market price.

One of these companies is owned by a Taiwanese businessman who was recently named by the FT as a substantial hidden shareholder in Adani companies.

The FT also examined 30 shipments of coal from Indonesia to India by an Adani company over 32 months between 2019 and 2021. In all cases, prices in import records were far higher than those in corresponding export declarations. During the journeys, the value of the combined shipments unaccountably increased by over $70mn.



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The Adani Group denies any wrongdoing. It said the FT story is based on an "old, baseless allegation", and is "a clever recycling and selective misrepresentation of publicly available facts and information".

The allegation of inflating fuel costs was first made seven years ago in a probe by the Directorate of Revenue Intelligence, the Indian finance ministry's investigative unit that polices economic crime.

Five Adani companies and a further five supplied by the group were among 40 importers named by the DRI in a 2016 notice of an investigation into intelligence that they were "artificially inflating" the value of Indonesian coal to siphon off money abroad and overcharge power companies. The notice said comparisons of export and import records "suggest huge overvaluation to the extent of 50 per cent to 100 per cent".

The notice also said that while coal travelled straight from Indonesia to India, "supplier's invoices are routed through one or more intermediary invoicing agents based in a third country, for the sole purpose of creating layers (typical of Trade based Money Laundering) and artificially inflating its landed value".

Separately, opposition politicians in Adani's home state of Gujarat have accused the group of overcharging for electricity since 2018, citing a letter from the state utility which said that Adani procured coal at prices "not reflecting the actual market value of Indonesian coal".

The company said it has been vindicated by the DRI's decision this year to withdraw an appeal to the Supreme Court in a case against one of the 40 importers named in 2016. "Clearly, the issue of overvaluation in the import of coal was conclusively settled by India's highest court of law," it said.

In that case, the authenticity of some documents relied on by the DRI to make its case were found by a customs tribunal to be unproven, and the DRI was found to lack jurisdiction under its narrow remit to enforce customs law. The DRI did not respond to requests for comment.

The unresolved nature of the DRI investigation and the apparent continuation of the alleged practices raise fresh questions about the relationship between Adani and the administration of Prime Minister Narendra Modi.

Founder Gautam Adani has been described as "Modi's Rockefeller". His group controls 10 listed companies and has thrived over the past decade, becoming India's biggest private thermal power company and biggest private port operator.

Adani started this year ranked the world's third-richest man, but the value of his group crashed to
as accused in January of running "the largest con in
rch, a US short-selling firm.

nt men and a labyrinth of offshore shell companies to cook
prices, drawing on documents from criminal investigations
s watch.

s and has said the short seller report is "not merely an
pany but a calculated attack on India, the independence,
ns, and the growth story and ambition of India".

Same coal, different prices

In January 2019, the DL Acacia, a 229m-long bulk carrier with a South Korean owner and Panamanian flag, departed the Indonesian port of Kaliorang in East Kalimantan carrying 74,820 tonnes of thermal coal destined for the fires of an Indian power station.

During the voyage, something extraordinary occurred: the value of its cargo doubled. In export records the price was $1.9mn, plus $42,000 for local costs. On arrival at India's largest commercial port, Mundra in Gujarat run by Adani, the declared import value was $4.3mn.

The DL Acacia cargo was one of 30 shipments imported into India by Adani Enterprises that the FT examined in detail. In each case, the vessel's customs records in India were matched with those filed in Indonesia. The records cover the period between January 2019 and August 2021, after which time Indonesian records ceased to be available.

To match each shipment, the FT checked sailing timings as recorded by Kpler, a freight data and analytics company, and Spire, a satellite data company. To reduce the chances of false matches, the FT only examined journeys where the weight of the shipment coincided perfectly in both sets of records and where that weight was an irregular number, or less likely to be replicated in multiple shipments.

s, these 30 representative sailings — totalling 3.1mn hipping and insurance costs in Indonesia. The values ne to $215mn, suggesting the voyages made up to $73mn ping costs.

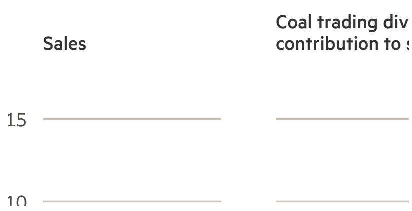
ompetitive business with profit margins in the low single xpert in the Indonesian trade said "anything more than a aises an eyebrow".

d most valuable company, generates the lion's share of its sales and profits from its coal trading division called Integrated Resources Management.

Coal is at the centre of Adani's flagship

Adani Enterprises financial performance, $bn

For instance, IRM* revenues accounted for 72% of total sales in 2023



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Source: company filings

The IRM division boasts of its expertise in logistics and commodity trading, with a team of 200 “experienced, highly qualified and energetic people” based in four global offices and 19 Indian locations.

In its most recent financial year, which ended in March, IRM reported trading 88mn tonnes of coal. Its results for the final quarter of that year, the first set of accounts published after Hindenburg’s report, covered a three-month period when the market price of coal had halved.

Yet IRM thrived, delivering a 24 per cent rise in earnings before tax and interest to Rs8.3bn ($101mn), on a 6 per cent rise in sales to Rs186bn ($2.3bn).

Annual profits at Adani Enterprises quadrupled over the past five years, to earnings before interest, tax, depreciation and amortisation of $1.2bn in the most recent financial year.

Men in the middle

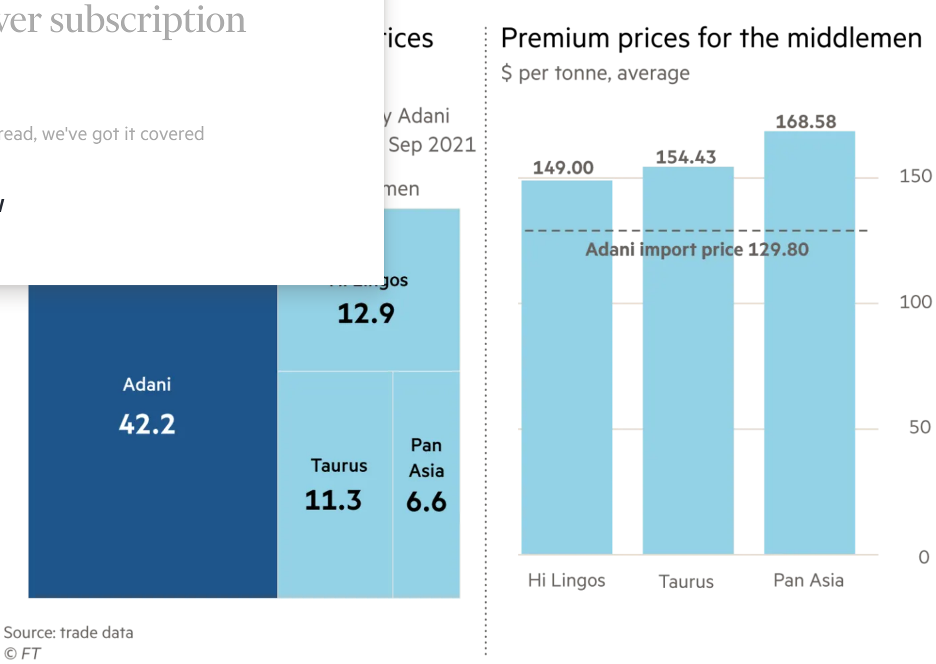
IRM did not make the kind of excess profits that can draw undue attention. Its operating profit margin in recent years was about 3.5 per cent, similar to commodity trading peers.

Three “middlemen” companies that supplied the Adani group with coal appear to have made more substantial amounts: Hi Lingos in Taipei, Taurus Commodities General Trading in Dubai, and Pan Asia Tradelink in Singapore.

Indian import data since July 2021 indicates Adani paid a total of $4.8bn to the three companies for coal sourced at substantial premiums to market prices.

The FT identified 2,000 shipments totalling 73mn tonnes of coal declared as Indian imports by Adani companies between September 2021 and July 2023 in customs data. The importer was primarily Adani Enterprises.

For the 42mn tonnes of coal supplied by its own operations in that time, the Adani group declared an average price of $130 per tonne.



Source: trade data
© FT

For the 31mn tonnes of coal supplied by its three middlemen, however, the average price declared per tonne was $155, a 20 per cent premium worth almost $800mn.

Hi Lingos, run from a residential address in Taipei, was the declared supplier for 12.9mn tonnes of coal in 428 shipments from Australia and Indonesia. Adani paid about $2bn for the coal.

The company is owned by Chang Chung-Ling, a Taiwanese businessman previously identified by the FT as a potentially controversial owner of Adani stock.

From 2013 to at least early 2017 Chang was secretly one of the largest shareholders in the three Adani companies listed at the time, according to documents obtained by journalist network the Organised Crime and Corruption Project.

Chang's identity was obscured by layers of paperwork in tax havens, while the investments were overseen from Dubai by an employee of Vinod Adani, Gautam's brother. Chang and an associate called Nasser Ali Shaban Ahli secretly controlled as much as 13.5 per cent of the free float, shares in public hands, at Adani Enterprises.

The FT could not identify a website or any employees on LinkedIn for Hi Lingos, which is registered to a ground floor flat that appears to be connected internally to an adjacent four-storey townhouse of concrete, wood and glass that neighbours said was the Chang residence. He declined to comment when the FT approached him as he left via the Hi Lingos address.

Chang Chung-Ling, owner of Hi Lingos, in Taiwan. The company was the declared supplier for 12.9mn tonnes of coal from Australia and Indonesia © Annabelle Chih/FT

lier of coal to Adani in the past two years was the Dubai
li Shaban Ahli. It was not possible to establish whether he

nes of coal supplied since September 2021, according to
ebsite doesn't name a single person and lists a post office
". The company does maintain an active office in Dubai's
eceptionists who directed the FT to call the company's
as he asked to be sent by email.

Adani appears to have paid the largest average premium to a Singapore business run by a former employee. Pan Asia Tradelink, previously named Pan Asia Coal Trading, has supplied Adani with 6.6mn tonnes of coal for $1.1bn since September 2021, according to customs records reviewed by the FT. The average price of $169 per tonne was a 30 per cent premium to the price of coal Adani sourced itself.

Pan Asia primarily supplied Adani Power and did not have other Indian customers for coal in the records reviewed by the FT.

Pan Asia shares a tiny office with two other companies in an unglamorous building containing many small businesses. A person there declined to speak to the FT or to accept a letter. The company did not respond to emailed questions, or written questions pushed under the door.

The two other middlemen did have other Indian customers. Hi Lingos sent $157mn-worth of coal to Throns Infrastructure, and $40mn-worth to Adi Tradelink, a partnership connected to India's Adicorp Enterprises. Those two companies were also the only non-Adani customers of Taurus, in the Indian customs records reviewed by the FT.

Adi Tradelink orders coal on behalf of Adani, according to a credit rating report published last year. A co-owner of Throns was until 2020 a director of an Adani family business.

Senior industry traders questioned the use of little-known trading houses, as large buyers of coal generally prefer to partner with big trading houses that have strong credit ratings and a reliable record for commodity deals involving the exchange of hundreds of millions of dollars.

"If you're trading in that kind of size then other people should really know you," said one former coal trader in Europe, who added: "From a business risk perspective you really want to have a number of counterparties, as what if the counterparty defaults?"

Black premium

It's possible that the three middlemen supplied high-quality coal that fetches higher prices, and that the customs records are an incomplete catalogue of their dealings.

Much of the coal supplied by the middlemen was indeed high quality according to its calorific value, or the total energy released during combustion, as listed in Indian import documents. But it was also typically priced far in excess of benchmark price assessments relied on by the industry for coal of that quality.

Data provider Argus maintains a range of benchmark prices for Indonesian coal between 3,400 and 6,500 gross calorific values per kilogramme.

Of the Indian import records reviewed, 311 shipments originating from Indonesia listed the calorific content of coal supplied to Adani by the middlemen.

All but a few were priced at a premium to what the closest Argus benchmark price had been two to four weeks earlier, the typical shipping time from Indonesia to Gujarat. The median premium was 14 per cent.

Occasionally they were far higher. For instance, Hi Lingos landed four shipments from Indonesia in August 2022 with a declared calorific content of 5,004 Kcal per kg, at a price of $179 per tonne. The highest price for the Argus 5,000 calorie benchmark in the preceding three months was $145 per tonne.

Expensive calories: Indonesian coal supplied by Adani and its middlemen were regularly pric

a declared calorific content close to 5,000 kcal/kg benchmark price

dlemen Argus benchmark

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Source: Argus, trade data

Adani also appears to have supplied itself with unusually expensive coal. For the 508 shipments with a calorific value where Adani companies were listed as both supplier and importer, most — 87 per cent — were priced higher than the closest Argus benchmark, at a median premium of 24 per cent.

The data suggests some other suppliers may also be declaring imports of Indonesian coal at prices higher than the Argus benchmarks. Repeating the analysis for imports by companies other than Adani during the same period, the median premium was 17 per cent.

The FT discussed its findings with three experts in coal trading, including traders and analysts, who said both the disparity in prices between the loaded and unloaded prices and also their divergence from coal benchmarks seemed highly questionable.

Henning Gloystein, an analyst at the Eurasia Group, says that while he had no direct knowledge of Adani's dealings, "if there is a series of cargoes exchanged between counterparties priced over global or regional benchmarks, that looks odd".

Extractive industry

Power generators in India are typically paid on the basis of long-term "cost-plus" contracts that factor in degrees of fixed and variable costs.

Over the past decade, as both the price of coal and the amounts imported rose, there have been multiple long-running disputes and litigation in the Indian courts related to how prices are set.

Many of those costs are passed on to the public only indirectly. Power generation, transmission and distribution in India is the responsibility of a patchwork of public and private companies regulated at the state and national levels. Parts of that network are financially fragile: rating agency Standard & Poor's estimated in June that the mainly state-owned distribution companies that supply consumers had accumulated losses of about $70bn.

In 2016, the DRI investigation suspected that the value extracted from illicit over-invoicing of coal was Rs300bn, then worth about $5bn.

In August this year, opposition politicians in Gujarat accused the state government of making almost $500mn in excess payments to Adani Power over five years under a power purchase agreement linked to the price of coal.

They claimed a letter from the state utility GUVNL showed it had paid the sums to Adani for coal procured at premium prices, and that Adani had not provided paperwork.

energy charges to the company. But if coal rates as per
then only Rs9,902 crore ($1.5bn) should have been paid,"

ments were interim and subject to adjustment, while Adani
the contract had been quoted out of context.

coal procurement on long-term supply basis in India is
al bidding process thereby eliminating any possibility of

People protest against high electricity prices in Mumbai © Satish Bate/Hindustan Times/Getty Images

She said that tariffs were set by the central regulator "after carefully evaluating all variables and in consultations with the power generator, distributor and retail consumers. So, clearly, the multiple stakeholders have multiple opportunities to look at all aspects determining the tariffs, including the import value of coal. Hence the question of either over invoicing or price manipulation does not arise."

The DRI investigation into coal over-invoicing appears to have stalled, but both the finance ministry's Enforcement Directorate, which is responsible for fighting money laundering, and the Central Bureau of Investigation, India's agency responsible for large, complex and multi-state criminal matters, have pursued cases since 2016 related to the suspected practice.

Just last month a man who owned one of the 40 importers named by the DRI was denied bail in proceedings where he is accused of swindling $68mn from public utilities by delivery of substandard coal and laundering the proceeds through shell companies. He has denied committing any offence.

With elections due next year, opposition politicians have tried to make coal and crony capitalism prominent issues, in some respects treading the path that took Modi's Bharatiya Janata party to power.

The party won in 2014 promising an anti-corruption drive after a swirl of prominent scandals involving the awards of telecommunications contracts and coal mining concessions. At the time, the government auditor estimated that the country had foregone $33bn of tax revenue due to low royalty rates agreed on questionable coal mining concessions.

The issue was a rallying cry for one politician in particular: speaking in Gujarat in 2012, Modi told a crowd that "the coal scam has darkened the face of the entire nation".

Additional reporting by Chloe Cornish in India, Kathrin Hille in Taipei, Mercedes Ruehl in Singapore and Simeon Kerr in Dubai