

CMP: ₹ 5.75

Target: ₹ 4 (-30%)

Target Period: 12 months

August 17, 2021

SELL

## The end game!

**About the stock:** Vodafone Idea (VIL) is India's third largest telecom operator with ~25.5 crore wireless customers in India.

- Given the balance sheet stress and delayed 4G network expansion, it is facing customer churn and lags the key listed peers in terms of 4G network coverage, ARPU and margins

**Q1FY22 Results:** VIL reported weak Q1FY22 results.

- Reported revenues were down 4.7% QoQ to ₹ 9,152 crore with ARPU decline of ~2.8% QoQ to ₹ 104 due to extension of validity for low cost customers during the second wave. The subscriber base declined by ~12.4 million to 255.4 mn. 4G sub base also saw a decline ~1 mn QoQ to 112.9 million, clearly showing stress. The post-paid sub base at 20.2 mn was down by 0.7 mn QoQ
- Reported EBITDA margins was down 538 bps QoQ at 40.5%
- The reported loss was at ₹ 7319 crore

**What should investors do?** VIL's share price has declined over 80% in the past three years (post-merger).

- We maintain **SELL** recommendation on the company as there remains uncertainty on survival due to lack of funding clarity/relief/major tariff hike

**Target Price and Valuation:** We value VIL at a target price of ₹ 4

**Key triggers for future price performance:**

- Major tariff hike or floor tariff implementation
- Substantial fundraise and/or government support in terms of waivers/relief etc.
- Lowering of overall subscriber churn

**Alternate Stock Idea:** Besides VIL, we like Bharti Airtel in the telecom space

- A play on favourable industry structure - a good enough kicker for eventual hike in tariff as well as superior digital play in the medium to long term
- BUY with a target price of ₹ 720



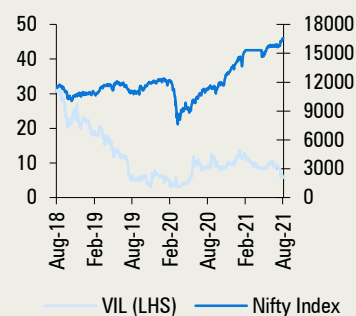
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	16,522.9
Total Debt (₹ Crore) -FY21	1,80,310.3
Cash & Inv. (₹ Crore)- FY21	2,216.5
EV (₹ Crore)	1,94,616.7
52 week H/L	13.8 / 4.6
Equity capital (₹ crore)	28,735.4
Face value (₹)	10.0

### Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	72.1	72.1	72.1	72.1
DII	0.9	1.4	1.0	1.3
FII	7.2	6.1	4.6	4.3
Other	19.9	20.5	22.3	22.4

### Price Chart



### Key risks

**Key Risk:** (i) Substantial tariff hike & fund raise; (ii) Major relief steps by government

### Research Analyst

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### Key Financial Summary

(Year-end March)	FY19	FY20	FY21	5 yr CAGR FY16-21	FY22E	FY23E	CAGR FY21-23E
Net Sales (₹ crore)	37,093	44,958	41,952	NC	38,550	43,692	2.1
EBITDA (₹ crore)	4,043	14,798	16,946	NC	16,630	20,344	9.6
Adjusted PAT (₹ crore)	(15,456)	(21,560)	(24,265)	NC	(28,496)	(26,858)	NA
Adjusted EPS (₹)	(17.7)	(7.5)	(8.4)		(9.9)	(9.3)	
Adjusted P/E (x)	(0.3)	(0.8)	(0.7)		(0.6)	(0.6)	
Price / Book (x)	0.1	2.7	(0.4)		(0.2)	(0.2)	
EV/EBITDA (x)	33.3	8.7	11.5		12.8	10.9	
RoCE (%)	(5.0)	(5.7)	(4.1)		(4.9)	(3.1)	
RoE (%)	(25.9)	NM	NM		NM	NM	

Source: Company, ICICI Direct Research; NC= Not comparable due to Vodafone and Idea merger

## Key performance highlight and outlook

### Overall churn rate increases; cash crunch remain...

The subscriber base declined by ~12.4 million (mn) to 255.4 mn, with churn rate increasing to 3.5% (vs 3% in Q4FY21) owing to the impact of second wave, which was pronounced vs. peers like Airtel (stable base) and Jio (14 mn sub addition. 4G sub base also saw a decline ~1 mn QoQ to 112.9 million, clearly showing stress. The post-paid sub base at 20.2 mn was down by 0.7 mn QoQ. **Similarly, capex at ₹ 940 crore (vs. ~₹ 1540 crore in Q4) was underwhelming given the balance sheet stress. The net debt at ₹ 1.91 lakh crore was up from ₹1.8 lakh crore, largely on inclusion of accrued interest and ~₹ 1100 crore of new spectrum debt. We highlight that payment commitments of ~₹ 16,000 crore for annual spectrum payment and ~₹ 8,400 crore for AGR dues are coming up in March/April, 2022. Furthermore, it also needs to renew bank guarantees of ~₹ 13358 crore and provide additional guarantee of ₹ 976 crore. It has also written to the government for further moratorium for annual spectrum dues payment and further relief. Government relief, therefore, will be key in the near term.**

### EBITDA declines; fund raise continues to be delayed

Reported EBITDA declined 15.9% QoQ on negative leverage and base quarter had one-off benefits. Of the ₹ 4,000 crore of further annualised cost savings plan, ~70% was realised by the company by the end of this quarter (vs. 65% in Q4). The company indicated that it is in active discussions with potential investors. It also indicated that recent steps such as raising post-paid plan tariff, and 2G tariff etc. will have modest impact. Thus, on the tariff correction front, it has indicated that tariff hike and/or floor tariff implementation will be key. We note that while the company intends to raise tariffs, it would be a function of all players' agreement (including Jio).

#### Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Bharti Airtel	626	720	Buy	3,41,712	-27.6	10.9	25.7	NM	57.7	24.4	10.7	8.5	6.7	6.4	9.4	13.7	-2.2	9.1	17.8
Vodafone Idea	6	4	Sell	16,523	-15.4	-9.9	-9.3	NM	NM	NM	11.5	12.8	10.9	-4.1	-4.9	-3.1	NM	NM	NM

Source: Company, ICICI Direct Research

VIL remains the weakest private telco. The company has filed a review petition for correction of computational errors in AGR dues. Its survival hinges on quick capital infusion and tariff hike / floor tariff implementation coupled with any relief from government. The need for capitalisation is urgent mainly due to its upcoming payment commitments, lagging spends on network and continued relative market share loss. We maintain SELL rating with a target price of ₹ 4/share (vs ₹ 5/share, earlier).

### Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	Q4FY21	YoY (%)	QoQ (%)
Revenue	9,152.3	9,216.2	10,659.3	9,607.6	-14.1	-4.7
Other Income	33.5	40.0	55.3	40.2	-39.4	-16.7
Employee Expenses	382.9	460.8	571.8	440.8	-33.0	-13.1
Marketing Expenses	628.3	506.9	647.5	649.5	-3.0	-3.3
Network operating expenditure	2,492.7	2,517.1	2,411.0	2,136.6	3.4	16.7
License and WPC Charges	997.7	930.8	1,001.7	1,040.7	-0.4	-4.1
Roaming & Access Charges	669.6	645.1	1,502.6	647.4	-55.4	3.4
Total Operating Cost	5,171.2	5,060.8	6,189.9	4,955.2	-16.5	4.4
EBITDA	3,707.7	3,829.9	4,098.4	4,408.7	-9.5	-15.9
EBITDA Margin (%)	40.5	41.6	38.4	45.9	2.06	-5.38
Depreciation	6,009.8	5,810.1	5,975.7	5,810.1	0.6	3.4
Interest	5,228.4	4,733.1	3,803.9	4,706.6	37.4	11.1
Total Tax	0.5	0.0	-0.2	-19.5	NA	NA
PAT	-7,319.1	-6,673.5	-25,460.1	-7,022.8	NA	NA
<b>Key Metrics</b>						
Subscribers (Million)	255.4	263.8	279.8	267.8	-8.7	-4.6
ARPU (₹)	104	104	114	107	-8.8	-2.8

Source: Company, ICICI Direct Research

### Change in Estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	40,711	38,550	-5.3	45,469	43,692	-3.9	
EBITDA	18,087	16,630	-8.1	21,499	20,344	-5.4	
EBITDA Margin (%)	44.4	43.1	-129 bps	47.3	46.6	-72 bps	
PAT	-24,866	-28,318	NM	-23,891	-26,858	NM	
EPS (₹)	-8.7	-9.9	NM	-8.3	-9.3	NM	

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 2: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Total operating Income</b>	<b>44958</b>	<b>41952</b>	<b>38550</b>	<b>43692</b>
Growth (%)	NA	-6.7	-8.1	13.3
Employee Expenses	2,164	2,030	1,735	2,010
Roaming & Access Charges	5,998	5,291	2,727	3,102
Network operating expenditure	10,992	9,594	9,699	9,529
License and WPC Charges	4,848	4,130	4,202	4,762
SG&A Expenses	4,098	2,555	2,245	2,403
Other Costs	2,060	1,407	1,311	1,541
Total Operating Expenditure	30,160	25,007	21,920	23,348
<b>EBITDA</b>	<b>14,798</b>	<b>16,946</b>	<b>16,630</b>	<b>20,344</b>
Growth (%)	NA	14.5	-1.9	22.3
Depreciation	24356	23639	24118	24569
Interest	15277	17998	21162	22834
Other Income	1039	174	154	200
Exceptional Item	38356	19968	-178	0
PBT	-62152	-44485	-28319	-26860
MV Profit from associates	-355	-231	-2	-2
Total Tax	12081	-20	1	0
<b>PAT</b>	<b>-73878</b>	<b>-44233</b>	<b>-28318</b>	<b>-26858</b>
<b>Adjusted PAT</b>	<b>-21560</b>	<b>-24265</b>	<b>-28496</b>	<b>-26858</b>
Growth (%)	NM	NM	NM	NM
<b>EPS (₹)</b>	<b>-25.7</b>	<b>-15.4</b>	<b>-9.9</b>	<b>-9.3</b>

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	28,735	28,735	28,735	28,735
Reserve and Surplus	-22,756	-66,963	-95,281	-1,22,139
Others	0	0	0	0
Total Shareholders funds	5,980	-38,228	-66,546	-93,403
Total Debt	1,14,996	1,80,310	1,97,310	2,07,310
Deferred Tax Liability	4	4	4	4
Others	27,868	17,720	17,720	17,720
<b>Total Liabilities</b>	<b>1,48,848</b>	<b>1,59,806</b>	<b>1,48,488</b>	<b>1,31,631</b>
<b>Assets</b>				
Gross Block	2,82,513	2,87,806	2,92,806	2,98,806
Less: Acc Depreciation	96,677	1,20,315	1,38,434	1,57,003
Net Block	1,85,837	1,67,490	1,54,372	1,41,803
Capital WIP	1,138	606	606	606
Total Fixed Assets	1,86,975	1,68,096	1,54,978	1,42,409
Investments	1,524	4	4	4
Inventory	3	1	1	1
Debtors	3,094	2,507	2,304	2,611
Loans and Advances	1	1	1	1
Other Current Assets	10,471	9,309	8,554	9,695
Cash	2,663	2,217	1,433	1,049
Total Current Assets	16,232	14,034	12,293	13,357
Creditors	12,429	13,403	12,315	13,958
Provisions	391	87	80	91
Total Current Liabilities	12,821	13,490	12,396	14,049
Net Current Assets	3,411	544	-103	-692
Other Non Current Assets	21,732	21,278	21,278	21,278
<b>Application of Funds</b>	<b>1,48,848</b>	<b>1,59,806</b>	<b>1,48,488</b>	<b>1,31,631</b>

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	-73,878	-44,233	-28,318	-26,858
Add: Depreciation	24,356	23,639	24,118	24,569
Add: Interest paid	15,277	17,998	21,162	22,834
(Inc)/dec in Current Assets	-2,886	1,686	-5,042	-7,448
Inc/(dec) in CL and Provisions	44,243	-34,396	-3,542	5,353
Others	0	0	0	0
<b>CF from op. activities</b>	<b>7,112</b>	<b>-35,307</b>	<b>8,379</b>	<b>18,450</b>
(Inc)/dec in Investments	6,259	1,975	0	0
(Inc)/dec in Fixed Assets	-10,131	-4,760	-5,000	-6,000
Others	4,430	-9,696	0	0
<b>CF from inv. activities</b>	<b>559</b>	<b>-12,482</b>	<b>-5,000</b>	<b>-6,000</b>
Issue/(Buy back) of Eq.	25,000	0	0	0
Inc/(dec) in loan funds	-10,944	65,315	17,000	10,000
Dividend	0	0	0	0
Interest Paid	-15,277	-17,998	-21,162	-22,834
Others	-4,664	25	0	0
<b>CF from fin. activities</b>	<b>-5,886</b>	<b>47,342</b>	<b>-4,162</b>	<b>-12,834</b>
Net Cash flow	1,785	-446	-783	-384
Opening Cash	878	2,663	2,217	1,433
<b>Closing Cash</b>	<b>2,663</b>	<b>2,217</b>	<b>1,433</b>	<b>1,049</b>

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	-25.7	-15.4	-9.9	-9.3
Cash EPS	-17.2	-7.2	-1.5	-0.8
BV	2.1	-13.3	-23.2	-32.5
DPS	0.0	0.0	0.0	0.0
Cash Per Share	0.9	0.8	0.5	0.4
<b>Operating Ratios</b>				
EBITDA Margin (%)	32.9	40.4	43.1	46.6
EBIT Margin (%)	-21.3	-16.0	-19.4	-9.7
PAT Margin (%)	-48.0	-57.8	-73.9	-61.5
Inventory days	0.0	0.0	0.0	0.0
Debtor days	25.1	21.8	21.8	21.8
Creditor days	100.9	116.6	116.6	116.6
<b>Return Ratios (%)</b>				
RoE	NM	NM	NM	NM
RoCE	-5.7	-4.1	-4.9	-3.1
RoIC	-7.8	-4.9	-6.0	-3.9
<b>Valuation Ratios (x)</b>				
P/E	NA	NA	NA	NA
EV / EBITDA	8.7	11.5	12.8	10.9
EV / Net Sales	2.9	4.6	5.5	5.1
Market Cap / Sales	0.4	0.4	0.4	0.4
Price to Book Value	2.7	-0.4	-0.2	-0.2
<b>Solvency Ratios</b>				
Debt/EBITDA	7.8	10.6	11.9	10.2
Debt / Equity	19.2	-4.7	-3.0	-2.2
Current Ratio	0.2	0.3	0.3	0.3
Quick Ratio	0.2	0.3	0.3	0.3

Source: Company, ICICI Direct Research

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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%



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