

## Fund raising delay restricts competitiveness...

**About the stock:** Vodafone Idea (VIL) is India's third largest telecom operator with ~24 crore wireless customers in India.

- Given the balance sheet stress and delayed 4G network expansion, it lags the top two peers in terms of 4G network coverage, ARPU and margins.

**Q1FY23 Results:** VIL's performance was a mixed bag. While the residual tariff hike partial pass through was seen, margins were lower QoQ.

- Reported revenues were up 6.6% QoQ to ₹ 10,410 crore, as **ARPU grew ~3.2% QoQ to ₹ 128, tad higher than 126, expected. The subscriber base declined at ~3.4 million (similar to 3.4 mn in Q4), with churn rate at 3.5%. 4G sub base saw addition of merely 0.9 mn QoQ to 119 million**
- Reported EBITDA margins was down 529 bps QoQ to 40.1%. On adjusted basis, margins were down 380 bps owing to high marketing costs and one-off post settlement with tower co. On ex- Ind AS basis, EBITDA was at ₹ 2110 crore, compared to ₹ 1970 crore in Q4FY22 (on adjusted basis), aided by tariff hike pass through
- Reported loss was at ₹ 7297 crore

**What should investors do?** VIL's share price fell ~83% over the past five years.

- While recent government relief measures ensure survival of VIL (albeit with steep dilution), staying competitive will be a function of how quickly it raises funds. We have our ratings/target price under review till clarity emerges on fund raise and growth path ahead.

**Target Price and Valuation:** We keep our target price under review.

### Key triggers for future price performance:

- Substantial fundraise to meet capital spends to expand 4G network coverage, launch 5G and stay competitive
- Improvement in subscriber churn and 4G subscriber metrics

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

- A play on superior metrics amid industry consolidation
- BUY with target price of ₹ 860



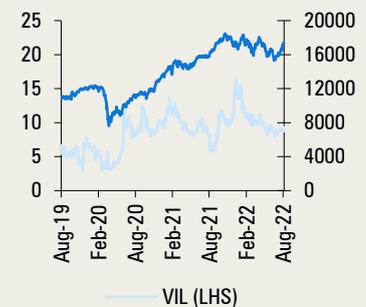
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	28,425
Total Debt (₹ Crore) -FY22	1,90,918
Cash & Inv. (₹ Crore)- FY22	3,497
EV (₹ Crore)	2,15,846
52 week H/L	16.8 / 4.6
Equity capital (₹ crore)	32,118.8
Face value (₹)	10.0

### Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	72.1	72.1	75.0	75.0
DII	1.5	1.4	1.7	1.6
FII	4.0	4.2	3.6	3.5
Other	22.4	22.4	19.7	20.0

### Price Chart



### Key risks

**Key Risk:** (i) Inability to raise fund; (ii) Inability to expand coverage and compete

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### Key Financial Summary

(Year-end March)	FY20	FY21	FY22	5 yr CAGR FY16-22	FY23E	FY24E	CAGR FY22-24E
Net Sales (₹ crore)	44,958	41,952	38,516	NC	43,388	49,403	13.3
EBITDA (₹ crore)	14,798	16,946	16,036	NC	18,900	24,083	22.5
Adjusted PAT (₹ crore)	(21,560)	(24,265)	(28,410)	NC	(28,679)	(25,470)	NA
Adjusted EPS (₹)	(7.5)	(8.4)	(8.8)		(7.9)	(7.0)	
Adjusted P/E (x)	(1.2)	(1.0)	(1.0)		(1.1)	(1.3)	
Price / Book (x)	4.3	(0.7)	(0.5)		(0.4)	(0.3)	
EV/EBITDA (x)	9.5	12.2	13.5		12.7	9.9	
RoCE (%)	(5.7)	(4.1)	(5.0)		(3.2)	0.5	
RoE (%)	NM	NM	NM		NM	NM	

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

## Key performance highlight and outlook

### Residual tariff hike pass-through aids revenues growth ...

We note that revenue metric improvement was largely a function of residual tariff hike pass-through and one extra day during the quarter, which led to **3.2% QoQ** growth in ARPU at ₹ 128. **The subscriber base declined at ~3.4 million (similar to 3.4 mn in Q4) to 240.4 million, with churn rate at 3.5%. The 4G sub base saw addition of merely 0.9 mn QoQ to 119 million.** VLR subscriber base also declined by 7.4 mn to 218.7 million. Data traffic/ MOU increased 4%, 2% QoQ to 5.4b GB, 620 minutes, respectively. Data usage/subs increased 4% QoQ to 13.3 GB but remains lower than peers wherein usage is close to 20 GB/month. **Similarly, capex was at ₹ 840 crore vs. ₹ 1210 crore in Q4 and underwhelming vis-à-vis peers, given the balance sheet stress. The management reiterated its intent to raise tariff by the end of current calendar year, which will lead to rise in ARPU. The net debt at ₹ 1.982 lakh crore was up by ₹ 1820 crore QoQ. Net debt includes deferred spectrum liability of ₹ 1.166 lakh crore, AGR liability of ₹ 67270 crore and bank borrowing of ₹ 15200 crore.**

### Reported EBITDA decline QoQ

Reported EBITDA at ₹ 4178 crore, was down 10% QoQ, due to higher marketing spends, one-off post settlement with tower company and also base quarter had one of benefits of ₹ 150 crore. Reported EBITDA margins were down 529 bps QoQ to 40.1%. On adjusted basis, margins were down 380 bps owing to high marketing costs and one-off post settlement with tower company EBITDA excluding Ind-AS 116 impact was ₹ 2110 crore, compared to ₹ 1970 crore in Q4FY22 (on adjusted basis), given tariff hike pass through. The company indicated that it is in active discussion with potential investors for fund raise. It refrained from guiding for capex ahead but indicated that subject to funding, it would increase spends on capex ahead largely to fill the 4G coverage gaps and launch 5G.

### Other highlights

- The company has acquired mid band 5G spectrum (3300 MHz band) in 17 priority circles and mmWave 5G spectrum (26 GHz band) in 16 circles. It has also acquired additional 4G spectrum in three circles i.e. in Andhra Pradesh, Karnataka and Punjab for ₹ 18799 crore payable in 20 annual instalments of ₹ 1681 crore/annum. It did not specify any time frame for 5G launch
- The company expects cash EBITDA to improve as 5G spectrum deployment will result in reduction in SUC charges (by 3% of AGR), while there will be some lower tower rent benefits
- The Board of Directors has approved the allotment of 42.77 crore warrants to Vodafone Group on a preferential basis for the aggregate consideration of ₹ 436.2 (₹ 10.2/warrant). This, coupled with the earlier preferential raise in Q4 of ~₹ 4500 crore takes the total fund infusion by the promoter groups to ₹ 4986 crore, largely to pay Indus Tower dues
- The company recently agreed to convert interest accrued from the four-year moratorium into equity. It indicated that DoT has confirmed the NPV of ₹ 16300 crore. This equity conversion (at FV of ₹ 10) will lead to dilution and the government owning ~33% in VIL and promoters (Vodafone and Aditya Birla group) owning 50%. The outstanding debt will come down by similar amount with annual interest cost savings of ₹ 1200 crore, from the same. We highlight that the government also has the discretion to convert total deferred moratorium dues into equity at the end of four years. The guidelines for this are still awaited

**VIL remains the weakest private telco. The need for capitalisation is urgent mainly due to its upcoming debt repayment requirement (₹ 5000 crore in FY23), lagging spends on network and continued relative market share loss. We highlight that recent government relief measures would ensure survival of VIL but future growth outlook remains uncertain. We have our ratings/target price UNDER REVIEW till clarity emerges on fund raise.**

Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	Q4FY22	YoY (%)	QoQ (%)
Revenue	10,410.1	10,318.8	9,152.3	10,239.5	13.7	1.7
Other Income	83.5	50.0	33.5	32.3	149.3	158.5
Employee Expenses	454.7	474.7	382.9	470.2	18.8	-3.3
Marketing Expenses	985.7	773.9	628.3	877.8	56.9	12.3
Network operating expenditure	2,349.5	2,377.8	2,492.7	2,086.2	-5.7	12.6
License and WPC Charges	1,131.0	1,130.9	997.7	1,122.1	13.4	0.8
Roaming & Access Charges	886.6	788.4	669.6	782.2	32.4	13.3
Total Operating Cost	5,807.5	5,545.7	5,171.2	5,338.5	12.3	8.8
EBITDA	4,178.4	4,460.6	3,557.7	4,649.0	17.4	-10.1
EBITDA Margin (%)	40.1 	43.2	38.9	45.4 	1.27 	-5.26
Depreciation	5,804.3	5,900.0	6,009.8	5,913.0	-3.4	-1.8
Interest	5,900.9	5,107.0	5,228.4	5,316.2	12.9	11.0
Total Tax	3.8	0.0	0.5	1.8	NA	NA
PAT	-7,296.7	-6,496.1	-7,319.1	-6,563.1	NA	NA
<b>Key Metrics</b>						
Subscribers (Million)	240.4	240.8	255.4	243.8	-5.9	-1.4
ARPU (₹)	128	126	104	124	23.1	3.2

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Total operating Income</b>	<b>41952</b>	<b>38516</b>	<b>43388</b>	<b>49403</b>
Growth (%)	-6.7	-8.2	12.7	13.9
Employee Expenses	2,030	1,735	1,939	2,174
Roaming & Access Charges	5,291	2,916	3,525	3,853
Network operating expenditure	9,594	9,818	9,506	9,873
License and WPC Charges	4,130	4,199	4,523	4,565
SG&A Expenses	2,555	2,950	3,789	3,458
Other Costs	1,407	862	1,207	1,395
Total Operating Expenditure	25,007	22,479	24,488	25,320
<b>EBITDA</b>	<b>16,946</b>	<b>16,036</b>	<b>18,900</b>	<b>24,083</b>
Growth (%)	14.5	-5.4	17.9	27.4
Depreciation	23639	23584	23806	23585
Interest	17998	20981	24005	26210
Other Income	174	129	234	240
Exceptional Item	19968	-164	0	0
PBT	-44485	-28235	-28677	-25472
M/ Profit from associates	-231	-1	-2	-2
Total Tax	-20	11	4	0
<b>PAT</b>	<b>-44233</b>	<b>-28245</b>	<b>-28679</b>	<b>-25470</b>
<b>Adjusted PAT</b>	<b>-24265</b>	<b>-28410</b>	<b>-28679</b>	<b>-25470</b>
Growth (%)	NM	NM	NM	NM
<b>EPS (₹)</b>	<b>-15.4</b>	<b>-8.8</b>	<b>-7.9</b>	<b>-7.0</b>

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	-44,233	-28,245	-28,679	-25,470
Add: Depreciation	23,639	23,584	23,806	23,585
Add: Interest paid	17,998	20,981	24,005	26,210
(Inc)/dec in Current Assets	1,686	-1,456	-7,487	-7,883
Inc/(dec) in CL and Provisions	-34,396	2,615	5,783	7,219
Others	0	0	0	0
<b>CF from op.activities</b>	<b>-35,307</b>	<b>17,478</b>	<b>17,427</b>	<b>23,661</b>
(Inc)/dec in Investments	1,975	-1	0	0
(Inc)/dec in Fixed Assets	-4,760	-12,671	-22,088	-12,000
Others	-9,696	2,339	0	0
<b>CF from inv. activities</b>	<b>-12,482</b>	<b>-10,333</b>	<b>-22,088</b>	<b>-12,000</b>
Issue/(Buy back) of Eq.	0	3,383	4,277	16,130
Inc/(dec) in loan funds	65,315	10,607	22,500	-2,130
Dividend	0	0	0	0
Interest Paid	-17,998	-20,981	-24,005	-26,210
Others	25	1,125	0	0
<b>CF from fin. activities</b>	<b>47,342</b>	<b>-5,865</b>	<b>2,772</b>	<b>-12,210</b>
Net Cash flow	-446	1,280	-1,889	-549
Opening Cash	2,663	2,217	3,497	1,608
<b>Closing Cash</b>	<b>2,217</b>	<b>3,497</b>	<b>1,608</b>	<b>1,059</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	28,735	32,119	36,395	52,525
Reserve and Surplus	-66,963	-94,084	-1,22,763	-1,48,233
Others	0	0	0	0
Total Shareholders funds	-38,228	-61,965	-86,368	-95,708
Total Debt	1,80,310	1,90,918	2,13,418	2,11,288
Deferred Tax Liability	2	0	0	0
Others	17,720	18,786	18,786	18,786
<b>Total Liabilities</b>	<b>1,59,805</b>	<b>1,47,739</b>	<b>1,45,836</b>	<b>1,34,365</b>
<b>Assets</b>				
Gross Block	2,84,799	2,89,799	3,19,799	3,31,799
Less: Acc Depreciation	1,17,308	1,40,893	1,58,899	1,76,684
Net Block	1,67,490	1,48,906	1,60,900	1,55,115
Capital WIP	606	364	364	364
Total Fixed Assets	1,68,096	1,49,270	1,61,264	1,55,479
Investments	4	5	5	5
Inventory	1	2	2	2
Debtors	2,507	2,444	2,753	3,135
Loans and Advances	1	0	0	0
Other Current Assets	9,309	10,893	12,271	13,972
Cash	2,217	3,497	1,608	1,059
Total Current Assets	14,034	16,836	16,634	18,168
Creditors	13,403	13,255	14,859	16,919
Provisions	87	62	70	79
Total Current Liabilities	13,490	13,317	14,929	16,998
Net Current Assets	544	3,518	1,705	1,169
Other Non Current Assets	21,278	19,999	19,999	19,999
<b>Application of Funds</b>	<b>1,59,805</b>	<b>1,47,739</b>	<b>1,45,836</b>	<b>1,34,365</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	-15.4	-8.8	-7.9	-7.0
Cash EPS	-7.2	-1.5	-1.3	-0.5
BV	-13.3	-19.3	-23.7	-26.3
DPS	0.0	0.0	0.0	0.0
Cash Per Share	0.8	1.1	0.4	0.3
<b>Operating Ratios</b>				
EBITDA Margin (%)	40.4	41.6	43.6	48.7
EBIT Margin (%)	-16.0	-19.6	-11.3	1.0
PAT Margin (%)	-57.8	-73.8	-66.1	-51.6
Inventory days	0.0	0.0	0.0	0.0
Debtor days	21.8	23.2	23.2	23.2
Creditor days	116.6	125.6	125.0	125.0
<b>Return Ratios (%)</b>				
RoE	NM	NM	NM	NM
RoCE	-4.1	-5.0	-3.2	0.5
RoC	-4.9	-6.5	-4.0	0.4
<b>Valuation Ratios (x)</b>				
P/E	NA	NA	NA	NA
EV / EBITDA	12.2	13.5	12.7	9.9
EV / Net Sales	4.9	5.6	5.5	4.8
Market Cap / Sales	0.7	0.7	0.7	0.6
Price to Book Value	-0.7	-0.5	-0.4	-0.3
<b>Solvency Ratios</b>				
Debt/EBITDA	10.6	11.9	11.3	8.8
Debt / Equity	-4.7	-3.1	-2.5	-2.2
Current Ratio	0.3	0.3	0.3	0.3
Quick Ratio	0.3	0.3	0.3	0.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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