

## Immediate fund raise key to stay competitive!

**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 lags key listed peers in terms of 4G network coverage, ARPU and margins

**Q2FY22 Results:** VIL reported Q2FY22 results on expected lines with improved ARPU and margins.

- Reported revenues were up 2.8% QoQ to ₹ 9,406 crore. ARPU grew ~5% QoQ to ₹ 109, as the company had increased the entry level prepaid pricing plan from ₹ 49 to ₹ 79, in a phased manner, as well as increased the tariffs in some postpaid plans. The subscriber base decline was a controlled at ~2.4 million (mn) to 253 mn, with churn rate reducing to 2.9% (vs. 3.4% in Q1). The 4G sub base saw addition of 3.3 mn QoQ to 116.2 mn. The post-paid sub base at 20 mn, however, was down by 0.2 mn QoQ
- Reported EBITDA margins was up 56 bps QoQ to 41.1% with margin expansion aided by ARPU growth
- The reported loss was at ₹ 7132 crore

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

- We highlight that recent government relief measures would ensure survival of VIL. However, staying competitive will be a function of how quickly it raises funds or takes tariff hike. We now put our ratings/target price under review till clarity emerges on fund raise

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

### Key triggers for future price performance:

- Major tariff hike or floor tariff implementation
- Substantial fundraise to meet debt repayments and capital spends

**Alternate Stock Idea:** Besides VIL, we like Tata Communication in telecom space.

- A play on cash flow generation consistency and growth levers like cloud, edge & security, IoT
- BUY with a target price of ₹ 1725



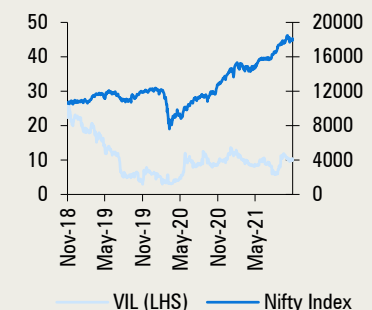
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	28,879.1
Total Debt (₹ Crore) -FY21	1,80,310.3
Cash & Inv. (₹ Crore)- FY21	2,216.5
EV (₹ Crore)	2,06,972.9
52 week H/L	13.8 / 4.6
Equity capital (₹ crore)	28,735.4
Face value (₹)	10.0

### Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoters	72.1	72.1	72.1	72.1
DII	1.4	1.0	1.3	1.5
FII	6.1	4.6	4.3	4.0
Other	20.5	22.3	22.4	22.4

### Price Chart



### Key risks

- Key Risk:** (i) Inability to raise fund; (ii) Inability to raise tariff

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### Key Financial Summary

(Year-end March)	FY19	FY20	FY21	5 yr CAGR FY16-21	FY22E	FY23E	CAGR FY22-23E
Net Sales (₹ crore)	37,093	44,958	41,952	NC	38,539	43,570	
EBITDA (₹ crore)	4,043	14,798	16,946	NC	16,535	20,233	
Adjusted PAT (₹ crore)	(15,456)	(21,560)	(24,265)	NC	(28,483)	(26,918)	
Adjusted EPS (₹)	(17.7)	(7.5)	(8.4)		(9.9)	(9.4)	
Adjusted P/E (x)	(0.6)	(1.3)	(1.2)		(1.0)	(1.1)	
Price / Book (x)	0.1	4.8	(0.8)		(0.4)	(0.3)	
EV/EBITDA (x)	36.4	9.5	12.2		13.6	11.6	
RoCE (%)	(5.0)	(5.7)	(4.1)		(5.0)	(3.1)	
RoE (%)	(25.9)	NM	NM		NM	NM	

## Key performance highlight and outlook

### Churn rate eases a bit; cash crunch remains...

The subscriber base declined by 2.4 mn to 253 mn, with the churn rate reducing to 2.9% (vs. 3.4% in Q1). The 4G sub base saw addition of 3.3 mn QoQ to 116.2 mn. The post-paid sub base at 20 mn, however, was down by 0.2 mn QoQ. **Similarly, capex at ₹ 1300 crore (vs. ~₹ 940 crore in Q1) was underwhelming given the balance sheet stress. The net debt at ₹ 1.95 lakh crore was up, largely on inclusion of accrued interest. The company has debt renewals coming up. The network spends also lag vis-à-vis peers. Thus, fund raising will be key to stay competitive.**

### ARPU aids EBITDA growth; fund raise continues to be delayed

Reported EBITDA margins were up 56 bps QoQ to 41.1% with margin expansion aided by ARPU growth. EBITDA excluding Ind-AS 116 impact was ₹ 1560 crore, compared to ₹ 1380 crore in Q1FY22. There was a one-off of ₹ 1.5 crore in other expenses in the quarter. On the ex-Ind-AS front, adjusted EBITDA was at ₹ 1410 crore. Of the ₹ 4,000 crore of further annualised cost savings over next 18 months, ~80% was realised by the company by the end of this quarter (vs. 70% in Q1). The company indicated that it is in active discussions with potential investors and expects fund raise by FY22 end. Thus, on the tariff correction front, it has indicated that tariff hike will be key. We note that while the company intends to raise tariffs, it would be a function of all players' agreement (including Jio).

**VIL remains the weakest private telco. The need for capitalisation is urgent mainly due to its upcoming debt repayment requirement, lagging spends on network and continued relative market share loss. We highlight that recent government relief measures would ensure survival of VIL. We now put our ratings/target price UNDER REVIEW till clarity emerges on fund raise.**

**Exhibit 1: Variance Analysis**

	Q2FY22	Q2FY22E	Q2FY21	Q1FY22	YoY (%)	QoQ (%)
Revenue	9,406.4	9,347.4	10,791.2	9,152.3	-12.8	2.8
Other Income	29.1	30.0	39.3	33.5	-26.0	-13.1
Employee Expenses	438.6	411.3	510.4	382.9	-14.1	14.5
Marketing Expenses	653.8	588.9	750.5	628.3	-12.9	4.1
Network operating expenditure	2,615.7	2,503.8	2,431.9	2,492.7	7.6	4.9
License and WPC Charges	1,025.4	1,018.9	994.8	997.7	3.1	2.8
Roaming & Access Charges	699.7	654.3	1,534.7	669.6	-54.4	4.5
Total Operating Cost	5,433.2	5,177.2	6,261.6	5,171.2	-13.2	5.1
EBITDA	3,862.9	3,840.0	4,152.4	3,707.7	-7.0	4.2
EBITDA Margin (%)	41.1	41.1	38.5	40.5	2.59	0.56
Depreciation	5,922.7	6,009.8	6,028.6	6,009.8	-1.8	-1.4
Interest	5,111.4	5,300.0	4,700.2	5,228.4	8.7	-2.2
Total Tax	4.0	0.0	-0.3	0.5	NA	NA
PAT	-7,132.3	-7,439.3	-7,218.2	-7,319.1	NA	NA
<b>Key Metrics</b>						
Subscribers (Million)	253.0	249.4	271.8	255.4	-6.9	-0.9
ARPU (₹)	109	110	119	104	-8.4	4.8

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>38539</b>	<b>43570</b>
Growth (%)	NA	-6.7	-8.1	13.1
Employee Expenses	2,164	2,030	1,741	2,004
Roaming & Access Charges	5,998	5,291	2,768	3,093
Network operating expenditure	10,992	9,594	9,825	9,557
License and WPC Charges	4,848	4,130	4,201	4,749
SG&A Expenses	4,098	2,555	2,381	2,396
Other Costs	2,060	1,407	1,089	1,537
Total Operating Expenditure	30,160	25,007	22,004	23,337
<b>EBITDA</b>	<b>14,798</b>	<b>16,946</b>	<b>16,535</b>	<b>20,233</b>
Growth (%)	NA	14.5	-2.4	22.4
Depreciation	24356	23639	24113	24517
Interest	15277	17998	21044	22834
Other Income	1039	174	143	200
Exceptional Item	38356	19968	-191	0
PBT	-62152	-44485	-28289	-26919
M/ Profit from associates	-355	-231	-1	-1
Total Tax	12081	-20	5	0
<b>PAT</b>	<b>-73878</b>	<b>-44233</b>	<b>-28292</b>	<b>-26918</b>
<b>Adjusted PAT</b>	<b>-21560</b>	<b>-24265</b>	<b>-28483</b>	<b>-26918</b>
Growth (%)	NM	NM	NM	NM
<b>EPS (₹)</b>	<b>-25.7</b>	<b>-15.4</b>	<b>-9.8</b>	<b>-9.4</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	-28,292	-26,918
Add: Depreciation	24,356	23,639	24,113	24,517
Add: Interest paid	15,277	17,998	21,044	22,834
(Inc)/dec in Current Assets	-2,886	1,686	-5,039	-7,417
Inc/(dec) in CL and Provisions	44,243	-34,396	-3,554	5,238
Others	0	0	0	0
<b>CF from op. activities</b>	<b>7,112</b>	<b>-35,307</b>	<b>8,273</b>	<b>18,255</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	-21,044	-22,834
Others	-4,664	25	0	0
<b>CF from fin. activities</b>	<b>-5,886</b>	<b>47,342</b>	<b>-4,044</b>	<b>-12,834</b>
Net Cash flow	1,785	-446	-771	-579
Opening Cash	878	2,663	2,217	1,446
<b>Closing Cash</b>	<b>2,663</b>	<b>2,217</b>	<b>1,446</b>	<b>866</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	-95,255	-1,22,173
Others	0	0	0	0
Total Shareholders funds	5,980	-38,228	-66,520	-93,438
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>1,48,514</b>	<b>1,31,596</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	1,38,429	1,56,946
Net Block	1,85,837	1,67,490	1,54,377	1,41,860
Capital WIP	1,138	606	606	606
Total Fixed Assets	1,86,975	1,68,096	1,54,983	1,42,466
Investments	1,524	4	4	4
Inventory	3	1	1	1
Debtors	3,094	2,507	2,303	2,604
Loans and Advances	1	1	1	1
Other Current Assets	10,471	9,309	8,552	9,668
Cash	2,663	2,217	1,446	866
Total Current Assets	16,232	14,034	12,302	13,140
Creditors	12,429	13,403	12,312	13,919
Provisions	391	87	80	91
Total Current Liabilities	12,821	13,490	12,392	14,010
Net Current Assets	3,411	544	-90	-870
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>1,48,514</b>	<b>1,31,596</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	-9.8	-9.4
Cash EPS	-17.2	-7.2	-1.5	-0.8
BV	2.1	-13.3	-23.1	-32.5
DPS	0.0	0.0	0.0	0.0
Cash Per Share	0.9	0.8	0.5	0.3
<b>Operating Ratios</b>				
EBITDA Margin (%)	32.9	40.4	42.9	46.4
EBIT Margin (%)	-21.3	-16.0	-19.7	-9.8
PAT Margin (%)	-48.0	-57.8	-73.9	-61.8
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	-5.0	-3.1
RoIC	-7.8	-4.9	-6.1	-3.9
<b>Valuation Ratios (x)</b>				
P/E	NA	NA	NA	NA
EV / EBITDA	9.5	12.2	13.6	11.6
EV / Net Sales	3.1	4.9	5.8	5.4
Market Cap / Sales	0.6	0.7	0.7	0.7
Price to Book Value	4.8	-0.8	-0.4	-0.3
<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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