

Weak performance...

About the stock: Vodafone Idea (VIL) is India's third largest telecom operator with ~24.7 crore wireless customers in India.

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

Q3FY22 Results: VIL's performance was weak.

- Reported revenues were up 3.3% QoQ to ₹ 9,717 crore, as ARPU grew ~5.5% QoQ to ₹ 115, led by partial pass through of tariff hike. The subscriber base decline continued at ~8.2 million, with churn rate at 3.4% (vs. 2.9% in Q2). 4G sub base saw addition of merely 0.8 mn QoQ to 117 million. The postpaid sub base at 19.8 mn, was down by 0.2 mn QoQ
- Reported EBITDA margins were down 179 bps QoQ to 39.3%, below our expectation, with margins miss owing to lower-than-expected revenues (impacted by subscriber churn) and higher marketing costs
- The reported loss was at ₹ 7231 crore

What should investors do? VIL's share price has declined by ~63% over the past three and half years (post-merger).

- While recent government relief measures ensure survival of VIL, staying competitive will be function of how quickly it raises funds. We have 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:

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

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 target price of ₹ 1775



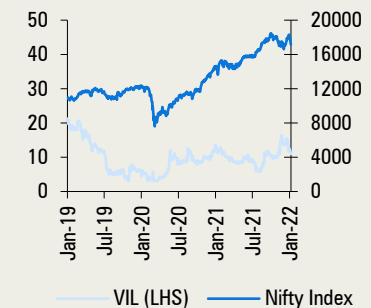
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	32,184
Total Debt (₹ Crore) -FY21	1,80,310
Cash & Inv. (₹ Crore)- FY21	2,217
EV (₹ Crore)	2,10,277
52 week H/L	16.8 / 4.6
Equity capital (₹ crore)	28,735.4
Face value (₹)	10.0

Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21
Promoters	72.1	72.1	72.1	72.1
DII	1.0	1.3	1.5	1.4
FIs	4.6	4.3	4.0	4.2
Other	22.3	22.4	22.4	22.4

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	5 yr CAGR FY16-21	FY22E	FY23E	FY24E	CAGR FY21-24E
Net Sales (₹ crore)	44,958	41,952	NC	39,013	44,638	52,841	8.0
EBITDA (₹ crore)	14,798	16,946	NC	15,964	20,236	26,344	15.8
Adjusted PAT (₹ crore)	(21,560)	(24,265)	NC	(28,528)	(24,852)	(19,057)	NA
Adjusted EPS (₹)	(7.5)	(8.4)		(9.9)	(5.6)	(4.3)	
Adjusted P/E (x)	(1.5)	(1.3)		(1.1)	(2.0)	(2.6)	
Price / Book (x)	5.4	(0.8)		(0.5)	(0.7)	(0.5)	
EV/EBITDA (x)	9.7	12.4		14.3	11.2	8.8	
RoCE (%)	(5.7)	(4.1)		(4.9)	(2.4)	1.5	
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

Churn rate increases owing to SIM consolidation ...

The subscriber base declined by ~8.2 million to 247 million, with churn rate at 3.4% (vs 2.9% in Q2) given the SIM consolidation on account of tariff hike. 4G sub base saw addition of merely 0.8 mn QoQ to 117 million. The postpaid sub base at 19.8 mn, however, was down by 0.2 mn QoQ. Total minutes on network declined 3.1% QoQ to 465 bn while total data usage was down ~5% QoQ to 5,242 bn MB. The data usage/sub 13.7 GB/month. The company indicated that decline in voice/data metrics were owing to rollback of promotional offers as well as subscriber churn. The overall broadband site count was at 450,330, marginally lower compared to 450,481 in Q2FY22 as it continued to shut down 3G sites in a phased manner. **Similarly, capex at ₹ 1050 crore vs. ₹ 1300 crore in Q2, remain underwhelming vis-à-vis peers, given the balance sheet stress. The net debt at ₹ 1.975 lakh crore was up by ₹ 2950 crore, given the cash burn. Thus, fund raising will be key to stay competitive.**

Reported EBITDA lower owing to marketing costs

Reported EBITDA margins were down 179 bps QoQ to 39.3% below our expectation, with margins miss owing to lower than expected revenues (impacted by subscriber churn) and higher marketing costs. EBITDA excluding Ind-AS 116 impact was ₹ 1620 crore, compared to ₹ 1410 crore in Q2FY22 (on adjusted basis), given tariff hike pass through, as per the management. Of the ₹ 4,000 crore of planned annualised cost savings, ~90% was realised by the company by the end of this quarter (vs. 80% in Q2). The company indicated that it is in active discussion with potential investors for fund raise. It also refrained from guiding for capex ahead but indicated that given government relief and tariff hike gains, it would increase spends on capex ahead largely to fill the 4G coverage gaps.

Other highlights

- The company indicated that tariff hike benefits would accrue over next couple of quarters, with major benefits likely in Q4. It believes that telecom services share of wallet is low. Therefore, there is further headroom for tariff hikes ahead
- The company recently agreed to convert interest accrued from the four-year moratorium into equity, the NPV of which is ₹ 16000 crore, as per company's computation. This equity conversion (at FV of ₹ 10) will lead to government owning 35.8% in VIL. It expects 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 end of four years, the guidelines for which is still awaited.

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

Variance Analysis

	Q3FY22	Q3FY22E	Q3FY21	Q2FY22	YoY (%)	QoQ (%)
Revenue	9,717.3	9,834.8	10,894.1	9,406.4	-10.8	3.3
Other Income	34.5	40.0	39.4	29.1	-12.4	18.6
Employee Expenses	443.4	442.6	507.0	438.6	-12.5	1.1
Marketing Expenses	790.3	683.6	504.1	653.8	56.8	20.9
Network operating expenditure	2,623.6	2,613.3	2,614.3	2,615.7	0.4	0.3
License and WPC Charges	1,053.6	1,072.0	1,092.3	1,025.4	-3.5	2.8
Roaming & Access Charges	764.0	727.8	1,605.9	699.7	-52.4	9.2
Total Operating Cost	5,674.9	5,539.2	6,363.0	5,433.2	-10.8	4.4
EBITDA	3,816.5	4,095.9	4,286.2	3,862.9	-11.0	-1.2
EBITDA Margin (%)	39.3	41.6	39.3	41.1	-0.07	-1.79
Depreciation	5,738.8	6,021.3	5,824.1	5,922.7	-1.5	-3.1
Interest	5,324.8	5,108.2	4,787.4	5,111.4	11.2	4.2
Total Tax	5.0	0.0	-0.3	4.0	NA	NA
PAT	-7,230.9	-6,993.2	-4,532.1	-7,132.3	NA	NA
Key Metrics						
Subscribers (Million)	247.2	251.0	271.8	255.4	-9.1	-3.2
ARPU (₹)	115	116	121	109	-5.0	5.5

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Total operating Income	41952	39013	44638	52841
Growth (%)	-6.7	-7.0	14.4	18.4
Employee Expenses	2,030	1,759	2,053	2,431
Roaming & Access Charges	5,291	2,977	3,169	3,752
Network operating expenditure	9,594	10,367	10,061	10,051
License and WPC Charges	4,130	4,241	4,866	5,760
SG&A Expenses	2,555	2,824	2,901	2,906
Other Costs	1,407	881	1,351	1,597
Total Operating Expenditure	25,007	23,049	24,402	26,497
EBITDA	16,946	15,964	20,236	26,344
Growth (%)	14.5	-5.8	26.8	30.2
Depreciation	23639	23556	23855	24494
Interest	17998	21064	21433	21147
Other Income	174	137	200	240
Exceptional Item	19968	-178	0	0
PBT	-44485	-28341	-24852	-19057
M/ Profit from associates	-231	-1	0	0
Total Tax	-20	10	0	0
PAT	-44233	-28350	-24852	-19057
Adjusted PAT	-24265	-28528	-24852	-19057
Growth (%)	NM	NM	NM	NM
EPS (₹)	-15.4	-9.9	-5.6	-4.3

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	-44,233	-28,350	-24,852	-19,057
Add: Depreciation	23,639	23,556	23,855	24,494
Add: Interest paid	17,998	21,064	21,433	21,147
(Inc)/dec in Current Assets	1,686	-5,172	-7,584	-8,311
Inc/(dec) in CL and Provisions	-34,396	-3,771	5,754	8,391
Others	0	0	0	0
CF from op.activities	-35,307	7,327	18,605	26,665
(Inc)/dec in Investments	1,975	0	0	0
(Inc)/dec in Fixed Assets	-4,760	-5,000	-10,000	-12,000
Others	-9,696	0	0	0
CF from inv. activities	-12,482	-5,000	-10,000	-12,000
Issue/(Buy back) of Eq.	0	0	16,000	0
Inc/(dec) in loan funds	65,315	20,000	0	12,000
Dividend	0	0	0	0
Interest Paid	-17,998	-21,064	-21,433	-21,147
Others	25	0	0	0
CF from fin. activities	47,342	-1,064	-5,433	-9,147
Net Cash flow	-446	1,263	3,172	5,518
Opening Cash	2,663	2,217	3,480	6,652
Closing Cash	2,217	3,480	6,652	12,170

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	28,735	28,735	44,735	44,735
Reserve and Surplus	-66,963	-95,313	-1,20,165	-1,39,222
Others	0	0	0	0
Total Shareholders funds	-38,228	-66,578	-75,430	-94,486
Total Debt	1,80,310	2,00,310	2,00,310	2,12,310
Deferred Tax Liability	4	4	4	4
Others	17,720	17,720	17,720	17,720
Total Liabilities	1,59,806	1,51,456	1,42,604	1,35,548
Assets				
Gross Block	2,87,806	2,92,806	3,02,806	3,14,806
Less: Acc Depreciation	1,20,315	1,37,871	1,55,726	1,74,221
Net Block	1,67,490	1,54,935	1,47,079	1,40,585
Capital WIP	606	606	606	606
Total Fixed Assets	1,68,096	1,55,540	1,47,685	1,41,191
Investments	4	4	4	4
Inventory	1	1	1	1
Debtors	2,507	2,331	2,667	3,158
Loans and Advances	1	1	1	1
Other Current Assets	9,309	8,657	9,905	11,725
Cash	2,217	3,480	6,652	12,170
Total Current Assets	14,034	14,470	19,226	27,055
Creditors	13,403	11,757	13,453	15,925
Provisions	87	77	88	104
Total Current Liabilities	13,490	11,834	13,540	16,029
Net Current Assets	544	2,636	5,686	11,026
Other Non Current Assets	21,278	21,278	21,278	21,278
Application of Funds	1,59,806	1,51,456	1,42,604	1,35,548

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	-15.4	-9.9	-5.6	-4.3
Cash EPS	-7.2	-1.7	-0.2	1.2
BV	-13.3	-23.2	-16.9	-21.1
DPS	0.0	0.0	0.0	0.0
Cash Per Share	0.8	1.2	1.5	2.7
Operating Ratios				
EBITDA Margin (%)	40.4	40.9	45.3	49.9
EBIT Margin (%)	-16.0	-19.5	-8.1	3.5
PAT Margin (%)	-57.8	-73.1	-55.7	-36.1
Inventory days	0.0	0.0	0.0	0.0
Debtor days	21.8	21.8	21.8	21.8
Creditor days	116.6	110.0	110.0	110.0
Return Ratios (%)				
RoE	NM	NM	NM	NM
RoCE	-4.1	-4.9	-2.4	1.5
RoC	-4.9	-6.0	-3.2	1.8
Valuation Ratios (x)				
P/E	NA	NA	NA	NA
EV / EBITDA	12.4	14.3	11.1	8.8
EV / Net Sales	5.0	5.8	5.0	4.4
Market Cap / Sales	0.7	0.8	0.7	0.6
Price to Book Value	-0.8	-0.5	-0.6	-0.5
Solvency Ratios				
Debt/EBITDA	10.6	12.5	9.9	8.1
Debt / Equity	-4.7	-3.0	-2.7	-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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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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