

Liquidity concerns remain...

Vodafone Idea's (VIL) Q4FY21 reported revenues were down 11.8% QoQ to ₹ 9,607.6 crore, out of which 9.6% decline was due to removal of IUC. On a reported basis, ARPU fell ~11.6% QoQ to ₹ 107. Reported EBITDA margins were up 660 bps QoQ to 45.9%, aided by one-off related to IT and network costs to the tune of ₹ 450 crore. Adjusted for the same, margins were at 41.2%. The EBITDA margin (excluding Ind-AS 116 impact) was 22.6%, up 320 bps QoQ. Reported loss was at ₹ 7022.6 crore, impacted by weak operating performance and exceptional charge of ₹ 974 crore, out of which ₹ 724 crore was due to impairment taken on the new integrated brand 'VI'.

Overall churn rate increases; cash crunch remains...

The subscriber base declined by ~2 million (mn) to 267.8 mn (similar to Q3), with churn rate increasing to 3% (vs. 2.3% in Q3FY21). The 4G sub base saw an improved addition of ~4.2 mn QoQ to 113.9 mn, albeit still lower than peers. Similarly, capex at ₹ 1540 crore (vs. ~₹ 970 crore in Q3) was higher QoQ, yet underwhelming given the balance sheet stress. Net debt at ₹ 1.8 lakh crore was up from ₹ 1.15 lakh crore, on inclusion of ₹ 60,960 crore AGR liability. We highlight that payment commitments of ~₹ 16000 crore for annual spectrum payment and ~₹ 8400 crore for AGR dues are coming up in March, April, 2022. Furthermore, it also needs to renew bank guarantees of ~₹ 7000 crore (and need to give some additional guarantee) in coming months. It has also written to the government for further moratorium.

EBITDA aided by one-offs; fund raise continues to be delayed

The reported EBITDA was aided by one-off provision write-back related to IT and network costs to the tune of ₹ 450 crore. Of the ₹ 4,000 crore of further annualised cost savings over the next 18 months, ~65% was realised by the company by the end of this quarter (vs. 50% in Q3). The company indicated that it is in active discussions with potential investors and expects the fund raise soon, with industry stress delaying the process. Similarly, on the tariff correction front, without indicating exact timeline, 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).

Valuation & Outlook

VIL remains the weakest private telco. AGR dues payment extension was only a short-term breather and its survival hinges on quick capital infusion and tariff hike/floor tariff implementation. 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 DCF based target price of ₹ 5/share (vs. ₹ 6/share, earlier). We will monitor triggers like fund raise and tariff hike, before changing stance.

Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22E	FY23E	CAGR FY21-23E
Net Sales (₹ crore)	37,093	44,958	41,952	40,711	45,469	4.1
EBITDA (₹ crore)	4,043	14,798	16,946	18,087	21,499	12.6
Adjusted PAT (₹ crore)	(15,456)	(21,560)	(24,265)	(24,866)	(23,891)	NA
Adjusted EPS (₹)	(17.7)	(7.5)	(8.4)	(8.7)	(8.3)	
Adjusted P/E (x)	(0.5)	(1.2)	(1.0)	(1.0)	(1.1)	
Price / Book (x)	0.1	4.2	(0.7)	(0.4)	(0.3)	
EV/EBITDA (x)	35.5	9.3	12.0	12.1	10.5	
RoCE (%)	(5.0)	(5.7)	(4.1)	(3.3)	(1.9)	
RoE (%)	(25.9)	NM	NM	NM	NM	

Source: Company, ICICI Direct Research



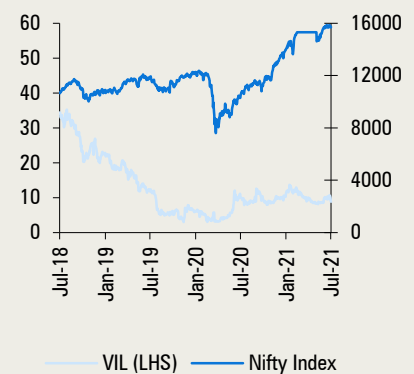
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	25,287.2
Total Debt (₹ Crore) -FY21	1,80,310.3
Cash & Investments (₹ Crore) - FY21	2,216.5
EV (₹ Crore)	2,03,381.0
52 week H/L	13.8 / 7.2
Equity capital (₹ crore)	28,735.4
Face value (₹)	10.0

Key risks to our call

- Any large quantum of tariff hike/floor price in near term
- Any substantial fund raise or strategic investments in near term

Price Performance



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Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	Q3FY21	YoY (%)	QoQ (%)	
Revenue	9,607.6	9,939.5	11,754.2	10,894.1	-18.3	-11.8	
Other Income	40.2	40.0	166.2	39.4	-75.8	2.0	
Employee Expenses	440.8	506.9	321.0	507.0	37.3	-13.1	
Marketing Expenses	649.5	546.7	996.5	504.1	-34.8	28.8	
Network operating expenditure	2,998.6	2,536.4	2,998.6	2,998.6	0.0	0.0	
License and WPC Charges	1,040.7	1,023.8	1,339.4	1,092.3	-22.3	-4.7	
Roaming & Access Charges	647.4	795.2	1,610.0	1,605.9	-59.8	-59.7	
Total Operating Cost	5,817.2	5,769.8	7,431.7	6,747.3	-21.7	-13.8	
EBITDA	4,408.7	4,169.7	4,380.1	4,286.2	0.7	2.9	Higher EBITDA owing to one-off related to IT and network costs to the tune of ₹450 crore
EBITDA Margin (%)	45.9	27.2	37.3	39.3	8.6	6.54	
Depreciation	5,810.1	5,888.6	6,038.8	5,824.1	-3.8	-0.2	
Interest	4,706.6	4,852.6	4,177.0	4,787.4	12.7	-1.7	
Total Tax	-19.5	0.0	-99.1	-0.3	NA	NA	
PAT	-7,022.8	-6,481.5	-11,643.5	-4,532.1	NA	NA	One-off exceptional items was of ₹ 974 crore, of which ₹724 crore was due to impairment taken on the new integrated brand 'VI'.
Key Metrics							
Subscribers (Million)	267.8	267.8	291.1	269.8	-8.0	-0.7	
ARPU (₹)	107	110	121	121	-11.6	-11.6	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	43,850	40,711	-7.2	48,991	45,469	-7.2	Realign numbers post Q4 results
EBITDA	20,243	18,087	-10.7	23,911	21,499	-10.1	
EBITDA Margin (%)	46.2	44.4	-174 bps	48.8	47.3	-152 bps	
PAT	-23,044	-24,866	NM	-22,626	-23,891	NM	
EPS (₹)	-8.0	-8.7	NM	-7.9	-8.3	NM	

Source: Company, ICICI Direct Research

Other Highlights

- **Network integration and coverage update:** The 4G population coverage is now over 1 billion. The company continued to expand LTE 900 in 11 circles, through dynamic spectrum refarming. VIL has added ~43,500 4G FDD sites primarily through refarming of 2G/3G spectrum to expand its 4G coverage and capacity. Till date, VIL has deployed over ~62,000 TDD sites in addition to the deployment of ~13,600 massive MIMO sites and ~12,600 small cells. The overall broadband site count was at 452,650 as of March 31, 2021 compared to 436,006 a year ago. The company has embarked on a cost optimisation exercise to achieve ₹ 4000 crore of annualised cost savings over 18 months (beginning Q2FY21). As of Q4FY21, it has already achieved ~65% of the targeted annualised cost savings (vs. ~50% in Q3), which aided EBITDA
- **Spectrum Auction:** VIL acquired 23.6 MHz of spectrum across 900 and 1800 MHz in Tamil Nadu, Karnataka, UP East, UP West, and West Bengal at an aggregate value of ₹ 1993 crore
- VIL has received ₹ 2000 crore from the Vodafone Group in FY21 (as a part of contingent liability mechanism wherein Vodafone group has to pay up to ₹ 8400 crore for pre-merger liabilities that would crystallise in future). Furthermore, the company has ₹ 6800 crore of tax refunds, of which it expects ~₹ 2000 crore in FY22. The next tranche of residual receipts from the Vodafone group is in June, 2022 but would also be adjusted against the tax refunds received on their behalf
- During the year, EBITDA was also aided by a change in accounting of subscriber acquisition costs that has now been amortised over the average expected customer life (positive impact of ~₹ 800 crore in FY21)
- Total mobile minutes were down 3.3% QoQ to 529 billion. Minutes per user was down 2.4 QoQ to 657
- Data usage was up 8.2% QoQ to 4,856 billion MB while data usage per mobile broadband sub was up 6.3% QoQ at 12.8 GB data per month
- Capex for FY21 was at ₹ 4150 crore vs. ₹ 10,130 crore in FY20

Financial summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	44958	41952	40711	45469
Growth (%)	NA	-6.7	-3.0	11.7
Employee Expenses	2,164	2,030	2,036	2,273
Roaming & Access Charges	5,998	5,291	2,850	3,228
Network operating expenditure	10,992	9,594	9,951	9,703
License and WPC Charges	4,848	4,130	4,112	4,661
SG&A Expenses	4,098	2,555	2,239	2,501
Other Costs	2,060	1,407	1,437	1,603
Total Operating Expenditure	30,160	25,007	22,624	23,970
EBITDA	14,798	16,946	18,087	21,499
Growth (%)	NA	14.5	6.7	18.9
Depreciation	24356	23639	23099	24188
Interest	15277	17998	20013	21402
Other Income	1039	174	160	200
Exceptional Item	38356	19968	0	0
PBT	-62152	-44485	-24865	-23890
MV Profit from associates	-355	-231	1	1
Total Tax	12081	-20	0	0
PAT	-73878	-44233	-24866	-23891
Adjusted PAT	-21560	-24265	-24866	-23891
Growth (%)	NM	NM	NM	NM
EPS (₹)	-25.7	-15.4	-8.7	-8.3

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	-73,878	-44,233	-24,866	-23,891
Add: Depreciation	24,356	23,639	23,099	24,188
Add: Interest paid	15,277	17,998	20,013	21,402
(Inc)/dec in Current Assets	-2,886	1,686	-5,650	-7,340
Inc/(dec) in CL and Provisions	44,243	-34,396	-1,292	4,953
Others	0	0	0	0
CF from op. activities	7,112	-35,307	11,303	19,311
(Inc)/dec in Investments	6,259	1,975	0	0
(Inc)/dec in Fixed Assets	-10,131	-4,760	-6,000	-6,000
Others	4,430	-9,696	0	0
CF from inv. activities	559	-12,482	-6,000	-6,000
Issue/(Buy back) of Eq.	25,000	0	0	0
Inc/(dec) in loan funds	-10,944	65,315	13,000	10,000
Dividend	0	0	0	0
Interest Paid	-15,277	-17,998	-20,013	-21,402
Others	-4,664	25	0	0
CF from fin. activities	-5,886	47,342	-7,013	-11,402
Net Cash flow	1,785	-446	-1,709	1,910
Opening Cash	878	2,663	2,217	507
Closing Cash	2,663	2,217	507	2,417

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	28,735	28,735	28,735	28,735
Reserve and Surplus	-22,756	-66,963	-91,829	-1,15,720
Others	0	0	0	0
Total Shareholders funds	5,980	-38,228	-63,094	-86,985
Total Debt	1,14,996	1,80,310	1,93,310	2,03,310
Deferred Tax Liability	4	4	4	4
Others	27,868	17,720	17,720	17,720
Total Liabilities	1,48,848	1,59,806	1,47,941	1,34,049
Assets				
Gross Block	2,82,513	2,87,806	2,93,806	2,99,806
Less: Acc Depreciation	96,677	1,20,315	1,37,414	1,55,602
Net Block	1,85,837	1,67,490	1,56,392	1,44,204
Capital WIP	1,138	606	606	606
Total Fixed Assets	1,86,975	1,68,096	1,56,998	1,44,810
Investments	1,524	4	4	4
Inventory	3	1	1	1
Debtors	3,094	2,507	2,433	2,717
Loans and Advances	1	1	1	1
Other Current Assets	10,471	9,309	9,034	10,090
Cash	2,663	2,217	507	2,417
Total Current Assets	16,232	14,034	11,975	15,225
Creditors	12,429	13,403	13,006	14,526
Provisions	391	87	85	95
Total Current Liabilities	12,821	13,490	13,091	14,621
Net Current Assets	3,411	544	-1,116	604
Other Non Current Assets	21,732	21,278	21,278	21,278
Application of Funds	1,48,848	1,59,806	1,47,941	1,34,049

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	-25.7	-15.4	-8.7	-8.3
Cash EPS	-17.2	-7.2	-0.6	0.1
BV	2.1	-13.3	-22.0	-30.3
DPS	0.0	0.0	0.0	0.0
Cash Per Share	0.9	0.8	0.2	0.8
Operating Ratios				
EBITDA Margin (%)	32.9	40.4	44.4	47.3
EBIT Margin (%)	-21.3	-16.0	-12.3	-5.9
PAT Margin (%)	-48.0	-57.8	-61.1	-52.5
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
Return Ratios (%)				
RoE	NM	NM	NM	NM
RoCE	-5.7	-4.1	-3.3	-1.9
RoIC	-7.8	-4.9	-4.0	-2.5
Valuation Ratios (x)				
P/E	NA	NA	NA	NA
EV / EBITDA	9.3	12.0	12.1	10.5
EV / Net Sales	3.1	4.8	5.4	5.0
Market Cap / Sales	0.6	0.6	0.6	0.6
Price to Book Value	4.2	-0.7	-0.4	-0.3
Solvency Ratios				
Debt/EBITDA	7.8	10.6	10.7	9.5
Debt / Equity	19.2	-4.7	-3.1	-2.3
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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