

## Lower network opex drives margin improvement...

**About the stock:** Vodafone Idea (VIL) is India's third largest telecom operator with ~24.4 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

**Q4FY22 Results:** VIL's performance was a mixed bag. While the tariff hike partial pass through was lower than expected, margins saw an improvement led by lower network opex (partly with one-off benefits).

- Revenues were up 6.6% QoQ to ₹ 10,240 crore, as ARPU grew ~7.8% QoQ to ₹ 128. The subscriber base decline at ~3.4 million (mn) (vs. 8.2 mn in Q3) also moderated, with churn rate at 3.4%. The 4G sub base saw addition of merely 1.1 mn QoQ to 118.1 million
- Reported EBITDA margins were up 613 bps QoQ to 45.4% owing to lower-than-expected network opex (that was down 20% QoQ and had ₹ 150 crore of one-off benefits). Adjusted margins were at 43.9%. Reported loss was at ₹ 6563 crore
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**What should investors do?** VIL's share price has declined by ~85% 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 fund raising 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 Bharti Airtel in the telecom space.

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



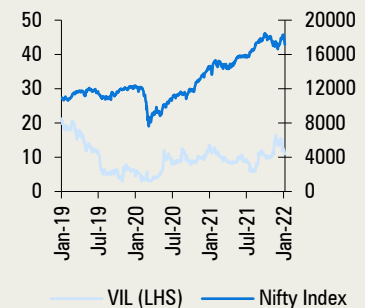
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	27,140
Total Debt (₹ Crore) -FY21	1,90,918
Cash & Inv. (₹ Crore)- FY21	3,497
EV (₹ Crore)	2,14,561
52 week H/L	16.8 / 4.6
Equity capital (₹ crore)	32,118.8
Face value (₹)	10.0

### Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	72.1	72.1	72.1	75.0
DII	1.3	1.5	1.4	1.7
FII	4.3	4.0	4.2	3.6
Other	22.4	22.4	22.4	19.7

### Price Chart



### Key risks

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

### Research Analyst

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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	43,079	51,255	15.4
EBITDA (₹ crore)	14,798	16,946	16,036	NC	18,897	24,983	24.8
Adjusted PAT (₹ crore)	(21,560)	(24,265)	(28,410)	NC	(25,040)	(17,803)	NA
Adjusted EPS (₹)	(7.5)	(8.4)	(8.8)		(5.2)	(3.7)	
Adjusted P/E (x)	(1.1)	(1.0)	(1.0)		(1.6)	(2.3)	
Price / Book (x)	4.1	(0.6)	(0.4)		(0.6)	(0.5)	
EV/EBITDA (x)	9.4	12.1	13.4		10.8	8.3	
RoCE (%)	(5.7)	(4.1)	(5.0)		(3.8)	0.9	
RoE (%)	NM	NM	NM		NM	NM	

## Key performance highlight and outlook

### Tariff hike pass through aids revenues growth...

We note that the revenue metric improvement was largely a function of tariff hike pass-through, which led to 7.8% QoQ growth in ARPU at ₹ 124. The company indicated that tariff hike has led to ~16% growth from pre-hike on an equal day basis. Barring some benefits from long period packs pass through, majority of tariff benefit is in the ARPU. The subscriber base decline at ~3.4 mn (vs. 8.2 mn in Q3) to 243.8 mn, also moderated, with churn rate at 3.4%. The 4G sub base saw addition of merely 1.1 mn QoQ to 118.1 million. VLR subscriber base also declined by 3.4 mn to 226.1 million. Total minutes on the network declined 2.8% QoQ to 452 bn while total data usage was down ~0.1% QoQ to 5,237 bn MB. The data usage/sub was at 13.7 GB/month, up 1.3% YoY but lower than peers. **Similarly, capex was at ₹ 1210 crore vs. ₹ 1050 crore in Q3, and underwhelming vis-à-vis peers, given the balance sheet stress. The net debt at ₹ 1.964 lakh crore was down by ₹ 1060 crore, given the infusion of ₹ 4500 crore through preferential issues to promoters, a majority of which was used to pay Indus Tower dues. Net debt includes deferred spectrum liability of ₹ 1.139 lakh crore, AGR liability of ₹ 66000 crore and bank borrowing of ₹ 18000 crore.**

### Reported EBITDA aided by lower network opex

The reported EBITDA at ₹ 4649 crore, increased sharply by 21.8% QoQ, owing to a sharp 20.5% sequential decline in network and operating costs partly benefitting from lower energy costs, lower number of days and partly due to one of benefits of ₹ 150 crore. Adjusted margins were up 466 bps QoQ to 43.9%. EBITDA excluding Ind-AS 116 impact was ₹ 2120 crore, compared to ₹ 1620 crore in Q3FY22 (on an adjusted basis), given tariff hike pass through and lower network costs. The company indicated that it is in active discussions with potential investors for fund raising. 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.

### Other highlights

- The company, which recently agreed to convert interest accrued from the four-year moratorium into equity, indicated that Department of Telecom (DoT) has confirmed the NPV of ₹ 16100 crore. This equity conversion (at FV of ₹ 10) will lead to government owning ~33% in VIL and promoters (Vodafone and Aditya Birla group) owning 50%. The outstanding debt will come down by a similar amount with annual interest cost savings of ₹ 1200 crore, from the same. We also highlight that it is at the discretion of the government to convert total deferred moratorium dues into equity at the end of four years, the guidelines for which are still awaited

**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 but the future growth outlook remains uncertain. We have our ratings/target price UNDER REVIEW till clarity emerges on fund raising.**

Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	Q3FY22	YoY (%)	QoQ (%)
Revenue	10,239.5	10,602.0	9,607.6	9,717.3	6.6	5.4
Other Income	32.3	35.0	40.2	34.5	-19.7	-6.4
Employee Expenses	470.2	477.1	440.8	443.4	6.7	6.0
Marketing Expenses	877.8	795.2	649.5	790.3	35.2	11.1
Network operating expenditure	2,086.2	2,680.3	2,136.6	2,623.6	-2.4	-20.5
License and WPC Charges	1,122.1	1,149.5	1,040.7	1,053.6	7.8	6.5
Roaming & Access Charges	782.2	833.6	647.4	764.0	20.8	2.4
Total Operating Cost	5,338.5	5,935.6	4,955.2	5,674.9	7.7	-5.9
EBITDA	4,499.0	4,398.3	4,408.7	3,816.5	2.0	17.9
EBITDA Margin (%)	43.9	41.5	45.9	39.3	-1.95	4.66
Depreciation	5,913.0	5,746.1	5,810.1	5,738.8	1.8	3.0
Interest	5,316.2	5,399.5	4,706.6	5,324.8	13.0	-0.2
Total Tax	1.8	0.0	-19.5	5.0	NA	NA
PAT	-6,563.1	-6,712.2	-7,022.8	-7,230.9	NA	NA
<b>Key Metrics</b>						
Subscribers (Million)	243.8	245.2	267.8	247.2	-9.0	-1.4
ARPU (₹)	124	129	107	115	15.9	7.8

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>43079</b>	<b>51255</b>
Growth (%)	-6.7	-8.2	11.8	19.0
Employee Expenses	2,030	1,735	1,982	2,358
Roaming & Access Charges	5,291	2,916	3,274	3,844
Network operating expenditure	9,594	9,818	10,126	10,115
License and WPC Charges	4,130	4,199	4,696	5,587
SG&A Expenses	2,555	2,950	2,800	2,819
Other Costs	1,407	862	1,304	1,550
Total Operating Expenditure	25,007	22,479	24,182	26,272
<b>EBITDA</b>	<b>16,946</b>	<b>16,036</b>	<b>18,897</b>	<b>24,983</b>
Growth (%)	14.5	-5.4	17.8	32.2
Depreciation	23639	23584	23893	24252
Interest	17998	20981	20246	18776
Other Income	174	129	200	240
Exceptional Item	19968	-164	0	0
PBT	-44485	-28235	-25042	-17804
M/ Profit from associates	-231	-1	-1	-1
Total Tax	-20	11	0	0
<b>PAT</b>	<b>-44233</b>	<b>-28245</b>	<b>-25040</b>	<b>-17803</b>
<b>Adjusted PAT</b>	<b>-24265</b>	<b>-28410</b>	<b>-25040</b>	<b>-17803</b>
Growth (%)	NM	NM	NM	NM
<b>EPS (₹)</b>	<b>-15.4</b>	<b>-8.8</b>	<b>-5.2</b>	<b>-3.7</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	-25,040	-17,803
Add: Depreciation	23,639	23,584	23,893	24,252
Add: Interest paid	17,998	20,981	20,246	18,776
(Inc)/dec in Current Assets	1,686	-1,456	-7,380	-8,631
Inc/(dec) in CL and Provisions	-34,396	2,615	5,412	9,813
Others	0	0	0	0
<b>CF from op.activities</b>	<b>-35,307</b>	<b>17,478</b>	<b>17,130</b>	<b>26,407</b>
(Inc)/dec in Investments	1,975	-1	0	0
(Inc)/dec in Fixed Assets	-4,760	-12,671	-2,088	-12,000
Others	-9,696	2,339	0	0
<b>CF from inv. activities</b>	<b>-12,482</b>	<b>-10,333</b>	<b>-2,088</b>	<b>-12,000</b>
Issue/(Buy back) of Eq.	0	3,383	16,000	0
Inc/(dec) in loan funds	65,315	10,607	-13,630	5,000
Dividend	0	0	0	0
Interest Paid	-17,998	-20,981	-20,246	-18,776
Others	25	1,125	0	0
<b>CF from fin. activities</b>	<b>47,342</b>	<b>-5,865</b>	<b>-17,876</b>	<b>-13,776</b>
Net Cash flow	-446	1,280	-2,833	631
Opening Cash	2,663	2,217	3,497	664
<b>Closing Cash</b>	<b>2,217</b>	<b>3,497</b>	<b>664</b>	<b>1,295</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	48,119	48,119
Reserve and Surplus	-66,963	-94,084	-1,19,124	-1,36,927
Others	0	0	0	0
Total Shareholders funds	-38,228	-61,965	-71,005	-88,808
Total Debt	1,80,310	1,90,918	1,77,288	1,82,288
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>1,25,068</b>	<b>1,12,265</b>
<b>Assets</b>				
Gross Block	2,84,799	2,89,799	2,99,799	3,11,799
Less: Acc Depreciation	1,17,308	1,40,893	1,58,986	1,77,438
Net Block	1,67,490	1,48,906	1,40,813	1,34,361
Capital WIP	606	364	364	364
Total Fixed Assets	1,68,096	1,49,270	1,41,177	1,34,725
Investments	4	5	5	5
Inventory	1	2	2	2
Debtors	2,507	2,444	2,733	3,252
Loans and Advances	1	0	0	0
Other Current Assets	9,309	10,893	12,183	14,496
Cash	2,217	3,497	664	1,295
Total Current Assets	14,034	16,836	15,583	19,045
Creditors	13,403	13,255	14,753	17,553
Provisions	87	62	69	82
Total Current Liabilities	13,490	13,317	14,822	17,636
Net Current Assets	544	3,518	760	1,409
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>1,25,068</b>	<b>1,12,265</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	-5.2	-3.7
Cash EPS	-7.2	-1.5	-0.2	1.3
BV	-13.3	-19.3	-14.8	-18.5
DPS	0.0	0.0	0.0	0.0
Cash Per Share	0.8	1.1	0.1	0.3
<b>Operating Ratios</b>				
EBITDA Margin (%)	40.4	41.6	43.9	48.7
EBIT Margin (%)	-16.0	-19.6	-11.6	1.4
PAT Margin (%)	-57.8	-73.8	-58.1	-34.7
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	-3.8	0.9
RoC	-4.9	-6.5	-4.8	0.8
<b>Valuation Ratios (x)</b>				
P/E	NA	NA	NA	NA
EV / EBITDA	12.1	13.4	10.8	8.3
EV / Net Sales	4.9	5.6	4.7	4.1
Market Cap / Sales	0.6	0.7	0.6	0.5
Price to Book Value	-0.6	-0.4	-0.6	-0.5
<b>Solvency Ratios</b>				
Debt/EBITDA	10.6	11.9	9.4	7.3
Debt / Equity	-4.7	-3.1	-2.5	-2.1
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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Reduce: -15% to -5%;

Sell: <-15%



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