

Vodafone Idea

BSE SENSEX
38,387

S&P CNX
11,521

CMP: INR33

TP: INR40 (+21%)

Buy



Stock Info

Bloomberg	IDEA IN
Equity Shares (m)	8,735
M.Cap.(INRb)/(USD\$)	288.3 / 4.2
52-Week Range (INR)	82 / 29
1, 6, 12 Rel. Per (%)	3/-31/-74
12M Avg Val (INR M)	1038
Free float (%)	28.7

Financials Snapshot (INR b)

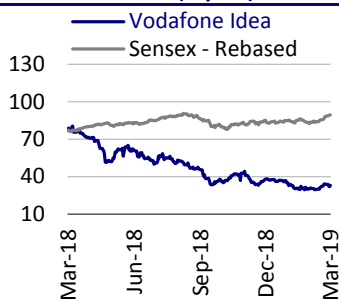
Y/E Mar	2019E	2020E	2021E
Net Sales	370.5	465.6	490.0
EBITDA	36.6	80.5	125.5
NP	-162.1	-164.6	-145.8
EPS (INR)	-18.6	-18.8	-16.7
EPS Gr. (%)	94.1	1.5	-11.4
BV/Sh. (INR)	69.2	50.3	33.6
RoE (%)	-37.0	-31.5	-39.8
RoCE (%)	-6.1	-3.8	-2.5
P/E (x)	NM	NM	NM
P/BV (x)	0.5	0.7	1.0
EV/EBITDA (x)	40.9	20.5	14.1

Shareholding pattern (%)

As On	Dec-18	Sep-18	Dec-17
Promoter	71.3	71.3	42.4
DII	5.6	6.1	8.1
FII	12.8	12.4	27.2
Others	10.2	10.2	22.3

FII Includes depository receipts

Stock Performance (1-year)



Tiding over near-term liquidity crisis

Rights issue at ~60% discount, amounts to 70% dilution

Vodafone Idea (VIL) board has provided the following details on its proposed INR250b rights issue:

- **Price:** INR12.5/share (~60% discount to CMP).
- **Dilution:** 70% (post issue) at a swap ratio of 87 equity shares for every 38 shares.
- **Period of right issue:** Opens on 10th April, closes on 24th April 2019.

Rights issue to support liquidity for next 6-8 quarters

VIL requires INR600b over the next eight quarters to fund (a) estimated capex of INR326b, (b) spectrum payment liabilities of INR213b and (c) external debt servicing and interest cost. The rights issue of INR250b, along with Idea's INR50b stake sale in Indus, current cash position, and cumulative EBITDA of INR220b until FY21, will be the sources of funds. Our EBITDA workings include INR78b cumulative opex synergy and revenue-linked benefits (but with market share loss of 4-5% in favor of Jiophone).

Leverage to remain high

Despite the huge fund raise and the estimated EBITDA increase to INR126b by FY21, net debt is likely to remain at INR1,060b, with the net debt-to-EBITDA ratio at a steep 8.4x. Thus, the fund-raising would simply support next eight quarters of cash requirements with limited deleveraging.

Fund raise to not turn VIL self-sufficient, could require additional round of funding

Unlike Bharti's fund raise, which will help it to deleverage the balance sheet significantly, VIL's estimated annual capex requirement and interest burden of over INR200b in FY21 may not be fulfilled even with an optimistic EBITDA of INR126b. Thus, without an ARPU increase, it may need another round of fund-raise to survive. This highlights Vodafone Idea's desperate need for ARPU accretion over the next two years to survive without incremental funding, which could be seen as an advantage by competitors.

ARPU increase inevitable in the long term

Given the cash flow and capex requirements for telcos and the current price plans offered, there exists a huge opportunity to increase ARPU. However, there is a huge gap between the product capability of VIL and RJio due to under investment in the former's network. This could reduce over the next 12 months as VIL has aggressive capex plans to bridge the gap and provide robust 4G coverage. Once the network and price arbitrage is reduced, the incremental market share shift should be arrested, which may compel RJio to start taking price hikes. We value the stock at INR40, 12x EV/EBITDA on EBITDA of INR126b in FY21. Our estimates factor in an ARPU increase of a meager 3% (which too will come in FY21). The rights issue will have 70% post issue equity dilution, but our TP remains unchanged as we believe that the impact of the steep dilution could be offset in the long term by the huge growth opportunity if the company manages the current liquidity situation well. Our positive stance is mainly premised on the healthy promoter backing and the strong operating leverage opportunity from any ARPU increase. **Maintain Buy.**

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Concall highlights

Timelines and pricing

- Record date for the rights issue is 2nd April'19.
- Listing of the shares should be tentatively completed by 10-11th May.
- The price of the rights issue is decided based on the market scenario, investor feedback and recent market precedence of other right issues.

Fund-raising options and objective

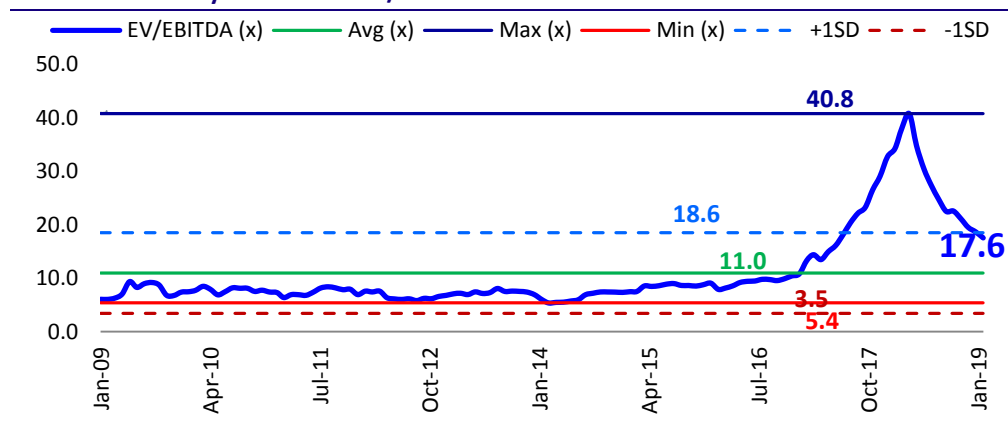
- Both promoter groups - Vodafone and ABG Group – have confirmed INR110b and INR72.5b, respectively (73% of the right issue), which is more than the entitlement of 71.33% stake.
- Proceeds from the rights issue will be utilized to invest in the business.
- The SEBI has granted approval to increase the promoter stake above 75% to fulfill 90% rights issue subscription. The time provided to reduce the stake to the 75% threshold is one year from the time of the rights issue.
- Renunciation or trading of the right is allowed between domestic investors without going on the floor of the exchange but if an FII is involved it has to be on the floor of the exchange.
- The rights issue, along the other fund raising plans (tower/fiber asset sale), EBITDA growth and existing cash position, should support capex and other cash requirements. The company should not require any incremental funds to manage operations.

Exhibit 1: Valuation based on FY21E combined EBITDA (INR b)

	Methodology	Driver (INR b)	Multiple (x)	Fair Value (INR b)	Value/sh (INR)
Combined EBITDA	FY21 EV/EBITDA	126	12	1,494	171
Less Net debt				1,148	131
Total Value				346	40
Shares o/s (b)				8.7	
CMP (INR)					33
Upside (%)					20

Source: MOFSL, Company

Exhibit 2: IDEA: 1-year forward EV/EBITDA



Source: Bloomberg, MOFSL

Exhibit 3: Right issue price of INR12.5 implies 19,999m shares to be issued

Particulars	INR b
Rights issue (INR b)	250
Issue Price (INR)	12.5
Rights entitlement ratio	87:38
No of right shares to be issued (m)	19,999

Source: MOFSL, Company

Exhibit 4: Right shares to result in 70% post equity dilution

Particulars	
Existing no of shares (m)	8,735
New shares to be issued (m)	19,999
Total shares post fund raising (m)	28,735
Post equity dilution (%)	70%

Source: MOFSL, Company

Exhibit 5: Key metrics comparison of top 3 telcos

Particulars	Bharti	Vodafone Idea	RJio
Total subscribers (m)	284	387	280
Data subscribers (m)	108	146	280
Data subs as a % of total subs	38%	38%	100%
Broadband subscribers (m)	95*	108	280
4G subscribers (m)	77	75	280
4G subs as a % of total subs	27%	19%	100%
Total data traffic (m GB)	3,217	2,705	8,640
Monthly data usage/customer (GB)	10.5	6.3	10.8
Monthly data usage/broadband customer (GB)	11.6	8.7	10.8
Cell sites ('000)	175	198	173
Broadband sites ('000)	165	158	173
Fiber network ('000 kms)	274	158	550

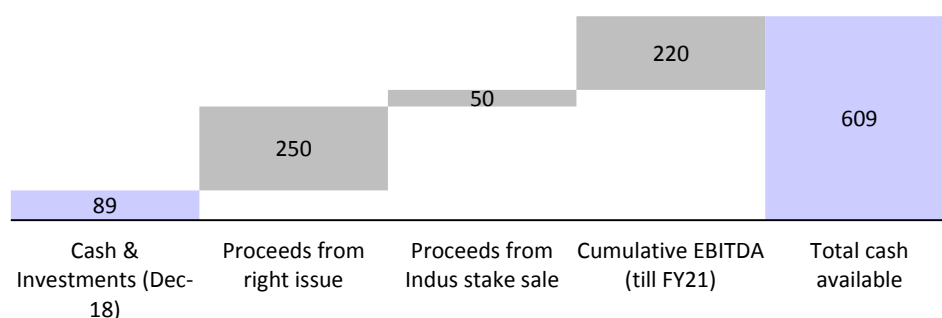
*Assuming 50% of 4G subscribers addition over 1Q-3QFY19 is from shift of 3G subscribers

Source: MOFSL, Company

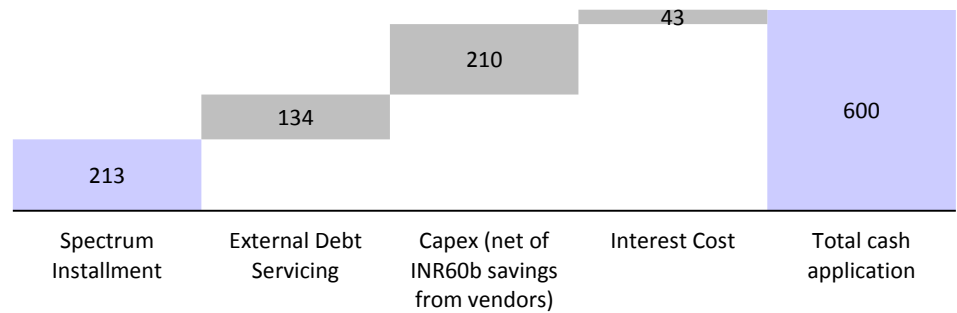
Exhibit 6: Working for potential availability and application of funds

Potential availability of funds	INR b	Potential application of funds	INR b
Cash and Investments (Dec-18)	89	Spectrum Instalment	213
Proceeds from right issue	250	External Debt Servicing	134
Proceeds from Indus stake sale	50	Capex (net of INR60b savings from vendors)	270
Cumulative EBITDA (till Fy21)	220	Interest Cost	43
Total cash available	609	Total cash application	600

Source: MOFSL, Company

Exhibit 7: Potential availability of funds (INR b)

Source: MOFSL, Company

Exhibit 8: Potential application of funds (INR b)

Source: MOFSL, Company

Exhibit 9: Capex working (INR b)

Particulars	Cash capex	(Cash + Non cash) capex
Expected capex	270	270
Add: Redeploying overlapping sites	0	62
Add: Spectrum gains from merger	0	68
Total capex	270	400
Less: Work done till Dec-18	12	70
Net Total capex	258	330

Source: MOFSL, Company

Exhibit 10: Calculation of FY21 net debt to EBITDA

Particulars	INR b
Net Debt (a)	1,148
Right Issue	250
Indus stake sale	50
Cumulative EBITDA - till FY21	220
Total funds available (b)	520
Capex	326
Interest cost	107
Total Funds required (c)	433
Net Debt (a – b + c)	1,060
FY21 EBITDA	126
Net Debt to EBITDA (x)	8.4

Source: MOFSL, Company

Exhibit 11: Calculation of EBITDA growth run-rate

Particulars	INR b
3QFY19 EBITDA	11.3
Add: Synergy gains	12.0
Less: IUC impact	4.0
Revenue driven growth (incl. min recharge, 4G subs shift and ARPU increase)	17.7
4QFY21 EBITDA	37.1

Source: MOFSL, Company

Financials and Valuations

Consolidated - Income Statement								(INR m)
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E*	FY20E*	FY21E*
Total Income from Operations	2,65,189	3,15,709	3,59,494	3,55,758	2,82,789	3,70,540	4,65,567	4,90,031
Change (%)	18.1	19.1	13.9	-1.0	-20.5	31.0	25.6	5.3
Total Expenditure	1,81,852	2,07,592	2,39,818	2,52,995	2,22,314	3,33,890	3,85,022	3,64,482
% of Sales	68.6	65.8	66.7	71.1	78.6	90.1	82.7	74.4
EBITDA	83,337	1,08,117	1,19,676	1,02,763	60,475	36,650	80,545	1,25,549
Margin (%)	31.4	34.2	33.3	28.9	21.4	9.9	17.3	25.6
Depreciation	45,194	53,036	62,561	78,272	84,091	1,46,843	1,93,390	1,97,965
EBIT	38,143	55,081	57,115	24,491	-23,616	-1,10,193	-1,12,845	-72,416
Int. and Finance Charges	7,700	5,755	18,831	37,342	44,600	86,582	1,31,772	1,44,630
PBT bef. EO Exp.	30,443	49,325	38,284	-12,851	-68,216	-1,96,775	-2,44,617	-2,17,046
Share of profits of associates	0	0	4,217	4,218	3,224	1,825	1,707	1,847
EO items	0	0	0	0	0	-19,979	0	0
PBT after EO Exp.	30,443	49,325	42,501	-8,633	-64,992	-1,74,971	-2,42,910	-2,15,198
Total Tax	10,765	17,396	15,220	-4,636	-23,310	-36,547	-78,302	-69,369
Tax Rate (%)	35.4	35.3	35.8	53.7	35.9	20.9	32.2	32.2
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	19,678	31,929	27,281	-3,997	-41,682	-1,38,424	-1,64,608	-1,45,829
Adjusted PAT	19,678	31,929	24,574	-3,997	-41,682	-1,62,119	-1,64,608	-1,45,829
Change (%)	94.7	62.3	-14.6	-114.7	942.8	232.1	1.5	-11.4
Margin (%)	7.4	10.1	7.6	-1.1	-14.7	-43.8	-35.4	-29.8

Consolidated - Balance Sheet								(INR m)
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E*	FY20E*	FY21E*
Equity Share Capital	33,196	35,978	36,005	36,053	43,593	87,351	87,351	87,351
Total Reserves	1,32,073	1,94,314	1,99,501	2,11,269	2,29,031	5,16,803	3,52,195	2,06,365
Net Worth	1,65,269	2,30,292	2,35,506	2,47,322	2,72,624	6,04,154	4,39,546	2,93,716
Total Loans	2,06,350	2,68,591	4,05,413	5,50,545	5,79,851	13,92,211	15,83,212	16,87,813
Deferred Tax Liabilities	18,133	19,015	19,539	13,218	-11,393	-64,150	-64,150	-64,150
Capital Employed	3,89,752	5,17,898	6,60,458	8,11,085	8,41,082	19,32,215	19,58,608	19,17,379
Gross Block	5,16,970	6,18,207	7,13,532	9,06,838	10,20,216	21,36,026	22,96,026	24,46,026
Less: Accum. Deprn.	2,21,012	2,62,871	61,692	1,39,267	2,23,358	3,70,201	5,63,591	7,61,556
Net Fixed Assets	2,95,958	3,55,336	6,51,840	7,67,571	7,96,858	17,65,825	17,32,435	16,84,470
Goodwill on Consolidation	61	61	61	61	61	61	61	61
Capital WIP	1,14,194	51,405	60,397	75,351	35,853	1,22,480	1,22,480	1,22,480
Total Investments	2,155	1,15,267	34,709	63,783	72,905	1,35,985	1,35,985	1,35,985
Curr. Assets, Loans & Adv.	53,206	82,598	54,247	59,912	66,069	3,31,426	3,74,178	3,74,887
Inventory	683	710	1,065	588	367	51	49	52
Account Receivables	8,006	9,789	11,424	13,139	8,874	40,604	38,972	41,021
Cash and Bank Balance	1,881	15,537	7,691	827	291	44,896	83,721	69,622
Loans and Advances	42,636	56,562	34,067	45,358	56,537	2,45,874	2,51,436	2,64,192
Curr. Liability & Prov.	75,823	86,769	1,40,798	1,55,592	1,30,664	4,23,562	4,06,531	4,00,504
Account Payables	68,960	78,013	1,36,418	1,51,551	1,27,333	4,18,864	4,02,022	3,95,758
Provisions	6,863	8,756	4,380	4,041	3,331	4,698	4,509	4,746
Net Current Assets	-22,616	-4,171	-86,550	-95,681	-64,595	-92,136	-32,353	-25,618
Appl. of Funds	3,89,752	5,17,898	6,60,458	8,11,085	8,41,082	19,32,215	19,58,608	19,17,379

E: MOFSL Estimates; *represents Vodafone Idea merged entity performance

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E*	FY20E*	FY21E*
Basic (INR)								
EPS	5.9	8.9	6.8	-1.1	-9.6	-18.6	-18.8	-16.7
Cash EPS	19.5	23.6	24.2	20.6	9.7	-1.7	3.3	6.0
BV/Share	49.8	64.0	65.4	68.6	62.5	69.2	50.3	33.6
DPS	0.4	0.6	0.6	0.0	0.0	0.0	0.0	0.0
Payout (%)	7.9	8.1	9.5	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	9.3	4.2	5.4	-33.2	-3.4	-1.8	-1.8	-2.0
Cash P/E		1.6	1.5	1.8	3.3	-18.9	10.0	5.5
P/BV	1.1	0.6	0.6	0.5	0.5	0.5	0.7	1.0
EV/Sales		1.2	1.5	1.9	2.5	4.4	3.8	3.9
EV/EBITDA	4.6	2.5	4.1	6.0	10.7	40.9	20.5	14.1
Dividend Yield (%)	0.7	1.7	1.6	0.0	0.0	0.0	0.0	0.0
Return Ratios (%)								
RoE	12.7	16.1	10.6	-1.7	-16.0	-37.0	-31.5	-39.8
RoCE	7.5	8.2	6.4	1.6	-1.8	-6.1	-3.8	-2.5
RoIC	9.0	11.7	8.2	1.8	-2.2	-7.4	-4.7	-3.1
Working Capital Ratios								
Fixed Asset Turnover (x)	0.5	0.5	0.5	0.4	0.3	0.2	0.2	0.2
Asset Turnover (x)	0.7	0.6	0.5	0.4	0.3	0.2	0.2	0.3
Inventory (Days)	1	1	1	1	0	0	0	0
Debtor (Days)	11	11	12	13	11	40	31	31
Leverage Ratio (x)								
Current Ratio	0.7	1.0	0.4	0.4	0.5	0.8	0.9	0.9
Interest Cover Ratio	5.0	9.6	3.0	0.7	-0.5	-1.3	-0.9	-0.5
Net Debt/Equity	1.2	0.6	1.5	2.0	1.9	2.0	3.1	5.0

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E*	FY20E*	FY21E*
OP/(Loss) before Tax	19,678	31,929	42,501	-8,632	-41,682	-1,38,424	-1,64,608	-1,45,829
Depreciation	45,194	53,036	62,561	78,272	84,091	1,46,843	1,93,390	1,97,965
Interest & Finance Charges	8,564	9,337	20,685	39,736	44,600	86,582	1,31,772	1,44,630
Direct Taxes Paid	-6,384	-11,043	-8,611	-6,808	0	0	0	0
(Inc)/Dec in WC	5,354	5,540	-3,980	6,960	-23,102	63,611	-20,958	-20,835
CF from Operations	72,406	88,800	1,13,155	1,09,527	63,907	1,58,612	1,39,596	1,75,930
Others	9,786	15,379	-3,669	-4,154	-24,611	-52,757	0	0
CF from Operating incl EO	82,192	1,04,179	1,09,486	1,05,373	39,296	1,05,855	1,39,596	1,75,930
(Inc)/Dec in FA	-36,448	-41,576	-1,29,118	-1,26,319	-73,880	-12,02,437	-1,60,000	-1,50,000
Free Cash Flow	45,744	62,603	-19,632	-20,946	-34,584	-10,96,582	-20,404	25,930
(Pur)/Sale of Investments	0	0	1,03,909	-33,472	-9,122	-63,080	0	0
Others	-29,194	-15,680	2,835	4,626	-8,519	8,535	0	0
CF from Investments	-65,642	-57,256	-22,373	-1,55,165	-91,521	-12,56,982	-1,60,000	-1,50,000
Issue of Shares	263	37,374	175	-4,453	67,497	4,69,954	0	0
Inc/(Dec) in Debt	-15,936	52,355	-86,485	84,297	29,306	8,12,360	1,91,001	1,04,601
Interest Paid	-7,682	-6,656	-4,393	-32,800	-44,600	-86,582	-1,31,772	-1,44,630
Dividend Paid	-1,306	-2,792	-2,598	-2,599	0	0	0	0
Others	0	0	0	1	-513	0	0	0
CF from Fin. Activity	-24,661	80,280	-93,301	44,445	51,690	11,95,732	59,229	-40,029
Inc/Dec of Cash	-8,111	1,27,202	-6,188	-5,346	-535	44,605	38,825	-14,099
Opening Balance	10,729	3,543	13,879	6,174	827	291	44,896	83,721
Closing Balance	1,881	15,537	7,691	827	292	44,896	83,721	69,622

E: MOFSL Estimates; *represents Vodafone Idea merged entity performance

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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