

Capitalisation, tariff hike needed for survival!

Vodafone Idea's (VIL) Q1FY21 performance was a reflection of its continued weakness in terms of sub-par subscriber quality, lag in 4G network, balance sheet stress. Revenues at ₹ 10,659 crore fell 9.3% QoQ, with ARPU at ₹ 114 (down ~5.8% QoQ, largely due to weak underlying sub base, Covid-19 led validity extension), coupled with net loss of 11.1 million (mn) customers. EBITDA (excluding Ind-AS 116 impact), adjusted for one-offs was at ₹ 1540 crore, down ~10% QoQ and adjusted margin of 14.4%, down 20 bps QoQ.

Weak KPI across the board...

Weakness was seen across KPIs. ARPU decline of ~6% QoQ, vis-à-vis peers who reported ARPU growth, was owing to extension of validity of low cost customers during lockdown, SIM consolidation by its customers and post-paid sub base decline. The subscriber base fell by 11.3 million to 279.8 mn. The 4G sub base saw a modest decline of ~1 mn QoQ to 104.6 mn, clearly reflecting pressure on its high paying customers. Even the post-paid sub base at 21.5 mn was down by 1.5 mn QoQ, owing to fall in POS connections where SIM was requested to be put in safe custody by customers.

Cost rationalisation plan of ₹ 4000 crore in next 18 months

The company has launched another opex synergy plan wherein it is targeting ₹ 4000 crore of annualised cost savings over the next 18 months. The rationalisation will be done across cost items as it is shifting to cluster (10 cluster) approach from traditional 22 circle approach & focus on 16 key circles (which contributes 94%, 87% of company, industry revenues, respectively), resulting in lower administrative, network, IT and other costs.

Future growth, capex plans post AGR verdict

VIL indicated that ARPU level of ₹ 230-250 is required for a decent cost of capital recovery. During the quarter, the company provided for ₹ 19440 crore towards total estimated AGR liability, taking total provisions to ₹ 58250 crore, accounting for interests till June, 2020. We expect Supreme Court to allow staggered payment over 15 years, where annual payout for VIL will be ~₹ 6000 crore. It indicated that further capex plan as well as well fund raising initiative decision will be taken post the AGR verdict, which we believe will hold the key for survival.

Valuation & Outlook

VIL is the weakest private telco. The company continues to face losses (now slipping into negative networth) and risk of eventual bankruptcy. While AGR extension could be a short term breather, its survival hinging on decent sized capital infusion and industry reforms such as floor tariff and other reliefs. We reinstate our ratings and assign **SELL** with DCF based target price of ₹ 6/share. Any plans of fund infusion (~₹ 10000+ crore) along with sharp tariff hike/floor tariff decision will be a key risk to our call.

Key Financial Summary

(Year-end March)	FY18	FY19	FY20	FY21E	FY22E	CAGR FY20-22E
Net Sales (₹crore)	28,279	37,093	44,958	44,370	51,520	7.1
EBITDA (₹crore)	6,048	4,043	14,798	17,381	22,303	22.8
Adjusted PAT (₹crore)	(4,168)	(15,456)	(21,560)	(21,769)	(19,614)	NA
Adjusted EPS (₹)	(9.6)	(17.7)	(7.5)	(7.6)	(6.8)	
Adjusted P/E (x)	(0.9)	(0.5)	(1.2)	(1.2)	(1.3)	
Price / Book (x)	0.1	0.1	4.2	(0.7)	(0.5)	
EV/EBITDA (x)	12.8	35.5	9.3	11.3	8.7	
RoCE (%)	(2.3)	(5.0)	(5.7)	(4.4)	(3.4)	
RoE (%)	(15.3)	(25.9)	NM	NM	NM	

Source: Company, ICICI Direct Research



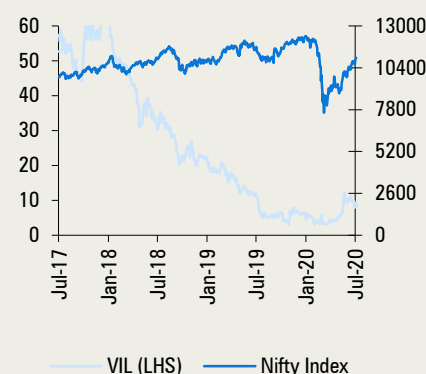
Particulars

Particular	Amount
Market Capitalization (₹Crore)	25,430.8
Total Debt (₹Crore)	126,059.7
Cash & Investments (₹Crore)	13,553.1
EV (₹Crore)	137,937.4
52 week H/L	13 / 2.4
Equity capital (₹crore)	28,735.4
Face value (₹)	10.0

Key Highlights

- Another quarter of weak performance and losses owing to continued weakness in terms of sub-par subscriber quality, lag in 4G network as well as balance sheet stress
- Assign SELL with DCF based target price of ₹ 6/share

Price Chart



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Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	Q4FY20	YoY (%)	QoQ (%)	
Revenue	10,659.3	10,819.3	11,269.9	11,754.2	-5.4	-9.3	
Other Income	55.3	150.0	279.6	166.2	-80.2	-66.7	
Employee Expenses	571.8	584.2	584.3	321.0	-2.1	78.1	
Marketing Expenses	647.5	919.6	961.3	996.5	-32.6	-35.0	
Network operating expenditure	2,998.6	2,998.6	2,998.6	2,587.2	0.0	15.9	
License and WPC Charges	1,001.7	1,114.4	1,191.0	1,339.4	-15.9	-25.2	
Roaming & Access Charges	1,502.6	1,514.7	1,319.8	1,610.0	13.9	-6.7	
Total Operating Cost	6,777.5	7,281.6	7,334.6	7,020.3	-7.6	-3.5	
EBITDA	4,098.4	3,649.4	3,650.0	4,380.1	NA	-6.4	Higher EBITDA owing to ₹300 crore of positive effect led by ₹100 crore in license fee related and ₹200 crore in network and IT cost related
EBITDA Margin (%)	38.4	33.7	32.4	37.3	NA	1.2	
Depreciation	5,975.7	6,038.8	6,130.8	6,038.8	NA	-1.0	
Interest	3,803.9	4,168.8	3,723.7	4,177.0	NA	-8.9	
Total Tax	-0.2	0.0	-1,799.9	-99.1	NA	NA	
PAT	-25,460.1	-6,340.3	-4,873.9	-11,643.5	NA	NA	Higher losses on account of one-off exceptional items of ₹19923 crore (of which ₹19440 crore towards the total estimated AGR liability and remaining towards integration related and one time spectrum charges. Adjusted for one-offs, loss at ₹5537 crore.
Key Metrics							
Subscribers (Million)	279.8	281.1	320.0	291.1	-12.6	-3.9	
ARPU (₹)	114	115	108	121	5.6	-5.8	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E	
(₹Crore)	Old	New	% Change	New	Comments
Revenue	52,471.8	44,370.1	-15.4	51,520.4	
EBITDA	20,920.3	17,381.0	-16.9	22,303.5	
EBITDA Margin (%)	39.9	39.2	-70 bps	43.3	
PAT	-15,206.5	-41,692.5	NM	-19,614.3	
EPS (₹)	-5.3	-14.5	NM	-6.8	

Source: Company, ICICI Direct Research

Conference Call and other Highlights

- **Network integration and coverage update:** The management indicated that network integration is complete except for Maharashtra and Tamil Nadu circles, wherein delay was owing to Covid-19 led lockdown restrictions. The 4G population coverage is now around 1 billion compared to 916 million a year ago. It has made progress in implementing LTE 900 in select locations, including through dynamic spectrum refarming. VIL has deployed ~59,800 TDD sites in addition to deployment of ~12,100 Massive MIMO sites and ~11,700 small cells till date. It has added ~13,000 4G FDD sites primarily through refarming of 2G/3G spectrum to expand 4G capacity. The overall broadband site count stood at 446,131 as of Q1FY21 compared to 436,006 in Q4FY20. **The company attained its targeted ₹ 8400 crore of annualised opex savings in Q4FY20 itself.**
- **One-off in EBITDA:** One-off in EBITDA included ₹ 300 crore of positive effect owing to ₹ 100 crore in license fee related and ₹ 200 crore in network and IT cost related
- **Others:**
 - Churn reduced to 2% compared to 3.3% in Q4FY20
 - Capex spend in Q1FY21 of ₹ 600 crore was lower compared to ₹ 1820 crore in Q4FY20, as the rollout in Q1 was impacted by Covid-19 with disruptions to equipment supply and the nationwide lockdown
 - The net debt at ₹ 1.16 lakh crore was up by ~₹ 3030 crore QoQ
 - In terms of total debt repayment of ₹ 3660 crore in FY21, ₹ 2940 crore was paid till July 2020. Remaining ₹ 720 crore is yet to be paid
 - The company received dividends worth ₹ 110 crore from Indus Towers. It also received ₹ 1530 crore from Vodafone Group (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)

Financial summary

Exhibit 3: Profit and loss statement					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Total operating Income	37093	44958	44370	51520	
Growth (%)	NA	NA	-1.3	16.1	
Employee Expenses	2,294	2,164	2,190	2,318	
Roaming & Access Charges	4,169	5,998	5,995	6,698	
Network operating expenditure	17,005	10,992	9,708	9,473	
License and WPC Charges	3,933	4,848	4,474	5,307	
SG&A Expenses	3,845	4,098	2,839	3,349	
Other Costs	1,803	2,060	1,784	2,073	
Total Operating Expenditure	33,050	30,160	26,989	29,217	
EBITDA	4,043	14,798	17,381	22,303	
Growth (%)	NA	NA	17.5	28.3	
Depreciation	14536	24356	24192	27123	
Interest	9463	15277	15820	15750	
Other Income	731	1039	505	600	
Exceptional Item	-852	38356	19923	0	
PBT	-18372	-62152	-42048	-19970	
MT/ Profit from associates	-197	-355	-356	-356	
Total Tax	-3572	12081	0	0	
PAT	-14604	-73878	-41692	-19614	
Adjusted PAT	-15456	-21560	-21769	-19614	
Growth (%)	NM	NM	NM	NM	
EPS (₹)	-16.7	-25.7	-14.5	-6.8	

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Liabilities					
Equity Capital	8,735.6	28,735.4	28,735.4	28,735.4	
Reserve and Surplus	50,899.2	-22,755.5	-64,448.0	-84,062.3	
Others	0.0	0.0	0.0	0.0	
Total Shareholders fund	59,634.8	5,979.9	-35,712.6	-55,326.9	
Total Debt	125,939.9	115,000.0	175,000.0	175,000.0	
Deferred Tax Liability	47.1	3.8	3.8	3.8	
Others	10,248.3	27,868.4	3,000.0	3,000.0	
Total Liabilities	195,870.1	148,852.1	142,291.2	122,676.9	
Assets					
Gross Block	291,961.1	324,357.5	336,357.5	348,357.5	
Less: Acc Depreciation	114,164.6	138,521.0	156,712.7	177,836.1	
Net Block	177,796.5	185,836.5	179,644.8	170,521.4	
Capital WIP	5,103.0	1,138.1	1,138.1	1,138.1	
Total Fixed Assets	182,899.5	186,974.6	180,782.9	171,659.5	
Investments	1,533.4	1,524.4	1,524.4	1,524.4	
Inventory	4.2	2.5	0.0	0.0	
Debtors	3,300.0	3,094.3	3,039.0	3,528.8	
Loans and Advances	2.7	1.1	1.1	1.3	
Other Current Assets	7,194.0	10,470.6	10,333.8	11,999.1	
Cash	990.8	2,663.0	3,770.6	5,476.1	
Total Current Assets	11,491.7	16,231.5	17,144.5	21,005.3	
Creditors	13,516.6	12,429.4	12,156.2	14,115.2	
Provisions	384.6	391.4	344.5	360.0	
Total Current Liabilities	13,901.2	12,820.8	12,500.7	14,475.2	
Net Current Assets	-2,409.5	3,410.7	4,643.8	6,530.1	
Other Non Current Assets	16,546.1	21,732.3	19,732.3	17,732.3	
Application of Funds	195,870.1	148,852.1	142,291.2	122,676.9	

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Profit after Tax	-14,603.8	-73,878.1	-41,692.5	-19,614.3	
Add: Depreciation	14,535.6	24,356.4	24,191.7	27,123.4	
Add: Interest paid	9,462.8	15,277.2	15,819.5	15,750.0	
(Inc)/dec in Current Asset	(6,880.1)	(2,886.1)	(5,805.4)	(8,155.2)	
Inc/(dec) in CL and Provisi	23,929.3	44,238.1	-1,172.7	12,351.7	
Others	0.0	0.0	0.0	0.0	
CF from op.activities	26,443.8	7,107.5	-8,659.3	27,455.6	
(Inc)/dec in Investments	-948.1	6,259.4	454.8	0.0	
(Inc)/dec in Fixed Assets	-114,157.9	-28,431.5	-12,000.0	-12,000.0	
Others	-15,844.1	22,730.7	-22,868.4	2,000.0	
CF from inv. activities	-130,950.1	558.6	-34,413.6	-10,000.0	
Issue/(Buy back) of Eq.	4,376.3	19,999.8	0.0	0.0	
Inc/(dec) in loan funds	67,954.7	-10,939.9	60,000.0	0.0	
Dividend	0.0	0.0	0.0	0.0	
Interest Paid	-9,462.8	-15,277.2	-15,819.5	-15,750.0	
Others	42,487.6	335.8	0.0	0.0	
CF from fin. activities	105,355.8	-5,881.5	44,180.5	-15,750.0	
Net Cash flow	849.5	1,784.6	1,107.6	1,705.6	
Opening Cash	29.0	878.5	2,663.0	3,770.6	
Closing Cash	878.5	2,663.0	3,770.6	5,476.1	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Per share data (₹)					
EPS	-16.7	-25.7	-14.5	-6.8	
Cash EPS	-0.1	-17.2	-6.1	2.6	
BV	68.3	2.1	-12.4	-19.3	
DPS	0.0	0.0	0.0	0.0	
Cash Per Share	1.1	0.9	1.3	1.9	
Operating Ratios					
EBITDA Margin (%)	10.9	32.9	39.2	43.3	
EBIT Margin (%)	-28.3	-21.3	-15.3	-9.4	
PAT Margin (%)	-41.7	-48.0	-49.1	-38.1	
Inventory days	0.0	0.0	0.0	0.0	
Debtor days	32.5	25.1	25.0	25.0	
Creditor days	133.0	100.9	100.0	100.0	
Return Ratios (%)					
RoE	-25.9	-360.5	61.0	35.5	
RoCE	-5.0	-5.7	-4.4	-3.4	
RoIC	-6.7	-7.8	-5.8	-4.9	
Valuation Ratios (x)					
P/E	NA	NA	NA	NA	
EV / EBITDA	35.5	9.3	11.3	8.7	
EV / Net Sales	3.9	3.1	4.4	3.8	
Market Cap / Sales	0.7	0.6	0.6	0.5	
Price to Book Value	0.1	4.2	-0.7	-0.5	
Solvency Ratios					
Debt/EBITDA	31.2	7.8	10.1	7.8	
Debt / Equity	2.1	19.2	-4.9	-3.2	
Current Ratio	0.3	0.2	0.2	0.2	
Quick Ratio	0.3	0.2	0.2	0.2	

Source: Company, ICICI Direct Research

Exhibit 7: ICICI Direct Coverage Universe (Telecom)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Bharti Airtel	561	700	Buy	305,950	-59.0	-24.7	11.2	NM	NM	50.1	11.6	9.9	7.9	3.5	6.9	9.2	-4.7	4.2	11.3
Bharti Infratel	193	180	Hold	35,623	17.8	16.7	17.4	10.8	11.6	11.1	5.7	5.6	5.3	18.1	19.8	21.7	24.4	23.7	25.5
Vodafone Idea	9	6	Sell	25,431	-25.7	-14.5	-6.8	NM	NM	NM	9.3	11.3	8.7	-5.7	-4.4	-3.4	NM	NM	NM
Sterlite Tech	125	125	Reduce	5,016	10.8	8.1	11.4	11.6	15.3	10.9	6.5	7.8	6.0	27.8	20.9	15.8	33.0	25.1	15.8
Tata Comm	814	880	Buy	23,205	-3.0	27.8	35.3	NM	29.3	23.1	9.8	7.8	6.8	7.8	12.7	15.7	-22.2	NM	NM

Source: Company, ICICI Direct Research

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