

## Still far from comfortable outlook!

In Q3FY21, Vodafone Idea's (VIL) reported revenues were up 1% QoQ to ₹ 10,894 crore, with ARPU growth of ~1.7% QoQ to ₹ 121. The subscriber base declined by ~2 million to 269.8 mn, with churn rate reducing to 2.3%. Reported EBITDA margins were up 86 bps QoQ to 39.3%, on account of change in accounting of subscriber acquisition costs that aided reported EBITDA by ~₹ 330 crore. The EBITDA margin (ex-Ind-AS 116 impact), adjusted for one-offs was at 16.3% vs. 15.5% in Q2. The loss was at ₹ 4532 crore, aided by lower depreciation costs and one-off exceptional items of ₹ 1696 crore (benefits of ₹ 2119 crore towards profit on sale of stake in Indus Tower partly offset by charge towards integration related costs, provision for additional depreciation and one-time spectrum charges).

## Overall churn rate moderates; post-paid base loss continues...

Some improvement was seen across KPIs. The subscriber base declined by ~2 million (mn) to 269.8 mn (much lower than last four quarter's run rate of ~9.8 mn decline), with churn rate reducing to 2.3% (vs. 2.6% in Q2FY21), which, we believe, is due to network integration completion. The 4G sub base saw a modest addition of ~3 mn QoQ to 109.7 million, albeit better than 1.5 mn addition in Q2. The post-paid sub base at 20.8 mn, however, was down by 0.4 mn QoQ. Similarly, capex at ₹ 970 crore (vs. ~₹ 1040 crore in Q2) was underwhelming, given the balance sheet stress. The net debt at ₹ 1.171 lakh crore was up by ~₹ 2570 crore QoQ, notwithstanding net receipt from Indus Tower sale of ₹ 1,360 crore (receipt of ₹ 3,760 crore from sale of stake offset by ₹ 2,400 crore of prepayment).

## Accounting change/cost rationalisation aid EBITDA

The reported EBITDA was aided by a change in accounting of subscriber acquisition costs that is now amortised over the average expected customer life (positive impact of ~₹ 330 crore). Of the ₹ 4,000 crore of further annualised cost savings over next 18 months, ~50% was realised by the company by the end of this quarter (vs. 25% in Q2), thereby aided EBITDA. VIL's board has approved funding raising of up to ₹ 25,000 crore through a mix of debt. The company is in active discussion with potential investors and expect the fund raise soon. Similarly, on the tariff correction front, without indicating exact timeline, it has indicated that tariff hike (likely in near term) and/or floor tariff implementation will be key.

## Valuation & Outlook

VIL remains the weakest private telco. While AGR dues payment extension was a short-term breather, its survival hinges on quick capital infusion and tariff hike/floor tariff implementation. The need for capitalisation is of paramount importance mainly due to its lagging spends on network and relative market share loss. We maintain **SELL** with DCF based TP of ₹ 6. We will monitor triggers like fund raise, tariff hike, before changing our stance.

### Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR FY20-23E
Net Sales (₹ crore)	37,093	44,958	42,240	43,850	48,991	2.9
EBITDA (₹ crore)	4,043	14,798	16,776	20,243	23,911	17.3
Adjusted PAT (₹ crore)	(15,456)	(21,560)	(23,697)	(23,044)	(22,626)	NA
Adjusted EPS (₹)	(17.7)	(7.5)	(8.2)	(8.0)	(7.9)	
Adjusted P/E (x)	(0.7)	(1.6)	(1.5)	(1.5)	(1.5)	
Price / Book (x)	0.2	5.8	(0.9)	(0.6)	(0.4)	
EV/EBITDA (x)	37.8	9.9	12.5	11.0	9.5	
RoCE (%)	(5.0)	(5.7)	(4.4)	(2.6)	(1.6)	
RoE (%)	(25.9)	NM	NM	NM	NM	

Source: Company, ICICI Direct Research



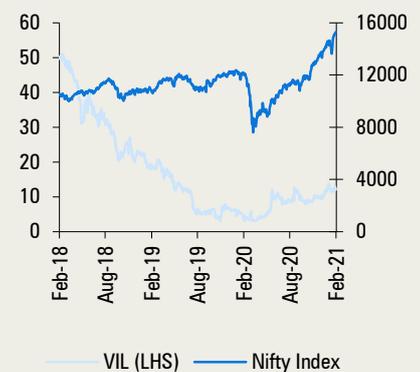
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	34,769.8
Total Debt (₹ Crore) -FY20	1,26,059.7
Cash & Investments (₹ Crore)- FY20	13,553.1
EV (₹ Crore)	1,47,276.4
52 week H/L	13.8 / 2.7
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 by strategic investors in near term

### Price Performance



### Research Analyst

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**Exhibit 1: Variance Analysis**

	Q3FY21	Q3FY21E	Q3FY20	Q2FY21	YoY (%)	QoQ (%)	
Revenue	10,894.1	10,860.8	11,089.4	10,791.2	-1.8	1.0	
Other Income	39.4	50.0	291.1	39.3	-86.5	0.3	
Employee Expenses	507.0	521.3	611.1	510.4	-17.0	-0.7	
Marketing Expenses	504.1	760.3	1,026.1	750.5	-50.9	-32.8	
Network operating expenditure	2,998.6	2,998.6	2,998.6	2,998.6	0.0	0.0	
License and WPC Charges	1,092.3	1,064.4	1,203.7	994.8	-9.3	9.8	
Roaming & Access Charges	1,605.9	1,466.2	1,640.2	1,534.7	-2.1	4.6	
Total Operating Cost	6,747.3	6,860.7	7,770.8	6,828.3	-13.2	-1.2	
EBITDA	4,286.2	3,998.8	3,420.5	4,152.4	25.3	3.2	Higher EBITDA owing to ₹ 330 crore of benefits due change in accounting for subscriber acquisition costs
EBITDA Margin (%)	39.3	36.8	30.8	38.5	8.5	0.86	
Depreciation	5,824.1	6,028.6	5,877.4	6,028.6	-0.9	-3.4	
Interest	4,787.4	4,760.4	3,722.2	4,700.2	28.6	1.9	
Total Tax	-0.3	0.0	17.4	-0.3	NA	NA	
PAT	-4,532.1	-6,654.6	-6,438.8	-7,218.2	NA	NA	One-off exceptional items of ₹ 1696 crore (benefits of ₹ 2119 crore towards profit on sale of stake in Indus Tower partly offset by charge towards integration related costs, provision for additional depreciation and one-time spectrum charges) aided in lower losses
<b>Key Metrics</b>							
Subscribers (Million)	269.8	267.8	321.6	279.8	-16.1	-3.6	
ARPU (₹)	121	123	107	114	13.1	6.1	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY21E			FY22E			FY23E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	43,476.0	42,239.9	-2.8	49,230.2	43,850.2	-10.9	48,990.7	Realign numbers post Q3 results
EBITDA	16,856.0	16,775.9	-0.5	20,765.3	20,243.4	-2.5	23,910.8	
EBITDA Margin (%)	38.8	39.7	94 bps	42.2	46.2	399 bps	48.8	
PAT	-45,231.8	-42,691.3	NM	-24,436.8	-23,044.4	NM	-22,625.9	
EPS (₹)	-15.7	-14.9	NM	-8.5	-8.0	NM	-7.9	

Source: Company, ICICI Direct Research

## Conference Call and other Highlights

- **Network integration and coverage update:** The 4G population coverage is now around 1 billion. It has expanded LTE 900 in select locations, including through dynamic spectrum refarming. VIL has deployed ~12,000 FDD sites in Q3. Till date, VIL has deployed ~61,000 TDD sites in addition to the deployment of ~12,900 Massive MIMO sites and ~11,800 small cells. The overall broadband site count was at 447,936 as of Q3FY21, lower compared to 457,386 in Q2FY21, as VIL has started to refarm its 3G sites to 4G. The company has embarked on a cost optimisation exercise to achieve ₹ 4000 crore of annualised cost savings over 18 months (beginning Q2FY21). As of Q3FY21, it has already achieved ~50% of the targeted annualised cost savings (vs. ~25% in Q2), which added EBITDA
- **Indus merger:** On November 19, 2020, the Indus merger scheme became effective and the merger of Indus and Infratel was completed. VIL sold its 11.15% stake in Indus on completion of the merger for a cash consideration of ~₹ 37600 crore in accordance with the terms of the agreement. Out of the considerations received from Infratel, VIL has made a prepayment of ~₹ 2400 crore to the merged tower entity, which will be adjusted in line with the terms of the agreement
- **Spectrum Auction:** VIL will participate in the upcoming spectrum auction and has deposited earnest money to the Department of Telecommunications. However, the management did not share its auction strategy and acquisition plans given competitive reasons
- **5G:** The management indicated that the company is deploying equipment, which is 5G ready, both on radio or core. However, it reiterated that the country's 5G ecosystem is still nascent given the device eco system, use cases, lack of clarity on technology as well as the high prices of spectrum
- **IUC impact:** The company informed that IUC formed ~10% of the revenues, which shall be knocked off as it is now zero from January, 2021. On EBITDA front, the net negative impact will be ~₹ 80 crore on quarterly basis
- Total mobile minutes was down 1.5% QoQ to 547 billion (bn). Minutes per user was flattish QoQ to 673
- Data usage was down 3.4% QoQ to 4,489 bn MB, while data usage per mobile broadband sub was up 2.6% QoQ at 12.3 GB data per month

## Financial summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total operating Income</b>	<b>44958</b>	<b>42240</b>	<b>43850</b>	<b>48991</b>
Growth (%)	NA	-6.0	3.8	11.7
Employee Expenses	2,164	2,094	2,193	2,450
Roaming & Access Charges	5,998	5,336	3,070	3,478
Network operating expenditure	10,992	9,994	9,957	9,709
License and WPC Charges	4,848	4,108	4,429	5,022
SG&A Expenses	4,098	2,446	2,412	2,694
Other Costs	2,060	1,486	1,547	1,727
Total Operating Expenditure	30,160	25,464	23,607	25,080
<b>EBITDA</b>	<b>14,798</b>	<b>16,776</b>	<b>20,243</b>	<b>23,911</b>
Growth (%)	NA	13.4	20.7	18.1
Depreciation	24356	23318	23979	26086
Interest	15277	17591	19709	20851
Other Income	1039	174	280	280
Exceptional Item	38356	18994	0	0
PBT	-62152	-42954	-23164	-22746
M/ Profit from associates	-355	-262	-120	-120
Total Tax	12081	-1	0	0
<b>PAT</b>	<b>-73878</b>	<b>-42691</b>	<b>-23044</b>	<b>-22626</b>
<b>Adjusted PAT</b>	<b>-21560</b>	<b>-23697</b>	<b>-23044</b>	<b>NA</b>
Growth (%)	NM	NM	NM	NM
<b>EPS (₹)</b>	<b>-25.7</b>	<b>-14.9</b>	<b>-8.0</b>	<b>-7.9</b>

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	28,735.4	28,735.4	28,735.4	28,735.4
Reserve and Surplus	-22,755.5	-65,446.8	-88,491.1	-1,11,117.1
Others	0.0	0.0	0.0	0.0
Total Shareholders funds	5,979.9	-36,711.4	-59,755.7	-82,381.7
Total Debt	1,15,000.0	1,77,800.0	1,88,800.0	1,94,800.0
Deferred Tax Liability	3.8	3.8	3.8	3.8
Others	27,868.4	3,000.0	2,500.0	2,500.0
<b>Total Liabilities</b>	<b>1,48,852.1</b>	<b>1,44,092.4</b>	<b>1,31,548.1</b>	<b>1,14,922.1</b>
<b>Assets</b>				
Gross Block	3,24,357.5	3,36,357.5	3,48,357.5	3,60,357.5
Less: Acc Depreciation	1,38,521.0	1,55,839.3	1,73,817.9	1,93,904.1
Net Block	1,85,836.5	1,80,518.1	1,74,539.6	1,66,453.4
Capital WIP	1,138.1	1,138.1	1,138.1	1,138.1
Total Fixed Assets	1,86,974.6	1,81,656.2	1,75,677.7	1,67,591.5
Investments	1,524.4	1,524.4	1,524.4	1,524.4
Inventory	2.5	0.0	0.0	0.0
Debtors	3,094.3	2,893.1	3,003.4	3,355.5
Loans and Advances	1.1	1.0	1.1	1.2
Other Current Assets	10,470.6	8,448.0	8,770.0	9,798.1
Cash	2,663.0	3,038.6	796.9	1,747.4
Total Current Assets	16,231.5	14,380.8	12,571.5	14,902.3
Creditors	12,429.4	11,572.6	12,013.7	13,422.1
Provisions	391.4	328.0	306.4	308.1
Total Current Liabilities	12,820.8	11,900.6	12,320.2	13,730.2
Net Current Assets	3,410.7	2,480.2	251.3	1,172.1
Other Non Current Assets	21,732.3	19,732.3	17,732.3	15,732.3
<b>Application of Funds</b>	<b>1,48,852.1</b>	<b>1,44,092.4</b>	<b>1,31,548.1</b>	<b>1,14,922.1</b>

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	-73,878.1	-42,691.3	-23,044.4	-22,625.9
Add: Depreciation	24,356.4	23,318.4	23,978.6	26,086.2
Add: Interest paid	15,277.2	17,591.3	19,709.3	20,850.5
(Inc)/dec in Current Assets	(2,886.1)	(3,773.7)	(6,432.4)	(7,380.3)
Inc/(dec) in CL and Provisions	44,238.1	-4,864.2	2,756.5	8,870.6
Others	0.0	0.0	0.0	0.0
<b>CF from op. activities</b>	<b>7,107.5</b>	<b>-10,419.5</b>	<b>16,967.6</b>	<b>25,801.0</b>
(Inc)/dec in Investments	6,259.4	454.8	0.0	0.0
(Inc)/dec in Fixed Assets	-28,431.5	-12,000.0	-12,000.0	-12,000.0
Others	22,730.7	-22,868.4	1,500.0	2,000.0
<b>CF from inv. activities</b>	<b>558.6</b>	<b>-34,413.6</b>	<b>-10,500.0</b>	<b>-10,000.0</b>
Issue/(Buy back) of Eq.	19,999.8	0.0	0.0	0.0
Inc/(dec) in loan funds	-10,939.9	62,800.0	11,000.0	6,000.0
Dividend	0.0	0.0	0.0	0.0
Interest Paid	-15,277.2	-17,591.3	-19,709.3	-20,850.5
Others	335.8	0.0	0.0	0.0
<b>CF from fin. activities</b>	<b>-5,881.5</b>	<b>45,208.8</b>	<b>-8,709.2</b>	<b>-14,850.5</b>
Net Cash flow	1,784.6	375.6	-2,241.7	950.5
Opening Cash	878.5	2,663.0	3,038.6	796.9
<b>Closing Cash</b>	<b>2,663.0</b>	<b>3,038.6</b>	<b>796.9</b>	<b>1,747.4</b>

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	-25.7	-14.9	-8.0	-7.9
Cash EPS	-17.2	-6.7	0.3	1.2
BV	2.1	-12.8	-20.8	-28.7
DPS	0.0	0.0	0.0	0.0
Cash Per Share	0.9	1.1	0.3	0.6
<b>Operating Ratios</b>				
EBITDA Margin (%)	32.9	39.7	46.2	48.8
EBIT Margin (%)	-21.3	-15.5	-8.5	-4.4
PAT Margin (%)	-48.0	-56.1	-52.6	-46.2
Inventory days	0.0	0.0	0.0	0.0
Debtor days	25.1	25.0	25.0	25.0
Creditor days	100.9	100.0	100.0	100.0
<b>Return Ratios (%)</b>				
RoE	NM	NM	NM	NM
RoCE	-5.7	-4.4	-2.6	-1.6
RoIC	-7.8	-5.4	-3.3	-2.3
<b>Valuation Ratios (x)</b>				
P/E	NA	NA	NA	NA
EV / EBITDA	9.9	12.5	11.0	9.5
EV / Net Sales	3.3	5.0	5.1	4.7
Market Cap / Sales	0.8	0.8	0.8	0.7
Price to Book Value	5.8	-0.9	-0.6	-0.4
<b>Solvency Ratios</b>				
Debt/EBITDA	7.8	10.6	9.3	8.1
Debt / Equity	19.2	-4.8	-3.2	-2.4
Current Ratio	0.2	0.2	0.2	0.2
Quick Ratio	0.2	0.2	0.2	0.2

Source: Company, ICICI Direct Research

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