

14 August 2024

India | Equity Research | Q1FY25 results review

Vodafone Idea

Telecom

All eyes on tariff hike benefits

Vodafone Idea's (VIL) Q1FY25 print suggests that the company continues to underperform peers, pending acceleration in capex following the completion of fund raise. VIL plans to invest INR 500–550bn in network over the next three years with immediate focus on expanding coverage, and decongesting network. VIL believes it can start growing again with fair share of subscriber addition, as it plugs the 4G coverage gap and starts adding more data capacity through 4G/5G expansion. It expects 67–75% of tariff hike benefits to flow to revenue in the next few quarters. Key elements to watch: Capex acceleration and the resultant higher incremental market share. We keep our EBITDA estimates unchanged, but increase our target price of INR 15, as we raise FY27E EV/EBITDA multiple to 14x (from 13.5x). Maintain **HOLD**.

Lack of coverage discourages subs

VIL's revenue was down 0.9% QoQ/1.4% YoY to INR 105bn. Revenue decline was due to subs dip of 2.9mn (down 1.4% QoQ) to 210mn vs. the average dip of 3.2mn in the past four quarters. The company has priority to reverse the decline, and start growing subs (grab fair market share in subs add). Its gross addition has been healthy at 22.6mn (Bharti was 32.1mn; and Rjio 32.7mn) in Q1FY25, and it has been grabbing more gross subs market share. VIL believes the key reason for higher churn is relatively inferior 4G coverage/capacities vs. peers. VIL has guided to fix its 4G coverage requirement soon, and plans to add 15% data capacity alongside increasing 4G coverage by 16mn by Sep'24. While data subs have dropped by 0.4mn to 137mn, it was able to grow 4G subs by 0.4mn to 126.7mn. Data subs are only 65.2% of total subs for VIL.

ARPU remained flat QoQ/up 5% YoY to INR 146, which benefited from 2G to 4G transition, decline in 2G subs base and a price hike in its base plan. Bharti/Rjio's ARPU grew 5.4%/0.7% YoY.

Cash EBITDA declined 3.7% QoQ/up 4% YoY to INR 21bn

EBITDA decline resulted from an increase in network opex by 1.2% QoQ/down 5.7% YoY to INR 24bn due to a drop in site (down 0.2% YoY) and BTS count (down 5.6% YoY). VIL had net loss of INR 64bn (vs. INR 77bn in Q4FY24) due to a dip in finance cost to INR 55bn from one-offs – favourable judgement in AGR income tax case of INR 2.63bn; and vendor interest reversal of INR 6.5bn.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	4,26,517	4,66,468	5,46,037	6,24,607
EBITDA	1,71,260	2,05,216	2,67,007	3,33,542
EBITDA Margin (%)	40.2	44.0	48.9	53.4
Net Profit	(3,19,939)	(2,26,359)	(1,85,440)	(1,01,650)
EPS (INR)	(6.4)	(3.3)	(2.7)	(1.2)
EPS % Chg YoY	3.5	(129.2)	(2.5)	(0.6)
P/E (x)	(2.5)	8.5	(5.7)	(13.4)
EV/EBITDA (x)	16.6	13.8	11.2	9.1
RoCE (%)	(4.9)	(3.0)	1.9	8.4
RoE (%)	35.0	(14.1)	22.9	12.7

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Market Data

Market Cap (INR)	1,050bn
Market Cap (USD)	12,514mn
Bloomberg Code	IDEA IN
Reuters Code	VODA BO
52-week Range (INR)	19 /8
Free Float (%)	29.0
ADTV-3M (mn) (USD)	179.7

Price Performance (%)	3m	6m	12m
Absolute	22.8	5.2	91.0
Relative to Sensex	14.3	(5.1)	70.1

Previous Reports

17-05-2024: [Q4FY24 results review](#)

Fund raise eases net debt by INR 114bn

VIL's net debt stood at INR 1,960bn in Q1FY25. The company's net debt reduced by INR 114bn due to a FPO of INR 180bn. Capex was low at INR 7.6bn (7.2% of revenue) and has added 7% data capacity. The capex is lower as the company is in discussion with OEMs on configuration of network; and it has already placed orders for certain 4G equipment. VIL strives to prioritise 4G coverage while also increasing its 5G reach. Over next three years, it aims to keep growing capacity based on data usage growth.

Other highlights

- VIL is in discussion with banks to raise debt fund of INR 250bn; and unfunded facility of INR 100bn. The funded proceeds will help the company invest in expanding its network.
- The company has bought spectrum of INR 35bn in the Jul'24 auction, which includes some renewal spectrum; and augmented sub-GHz spectrum that will help in rolling out L-900 in four more circles – A.P, T.N, Karnataka and Punjab. VIL believes that it has sufficient spectrum for the foreseeable future.
- VIL has reiterated its capex commitment of INR 500–550bn over the next three years. Initial capex will be anchored around coverage improvement for both 4G and 5G, and decongestion of data network. Later part of capex will follow data capacity enhancement, either through 4G or 5G. Company sees itself in a sweet spot to skip TDD-4G capex; and leapfrog to 5G for capacity, if evaluated feasible.
- The company has shut down 3G in seven circles; and drop in BTS is due to re-farming of 2100MHz, where 4G BTS already exists.
- Tariff hike is expected to boost ARPU by 17% ceteris paribus; however, downtrading, delayed recharging and SIM consolidation do limit revenue growth potential. VIL expects trends to be similar to previous tariff hikes. VIL expects SIM consolidation should be lower, as tariff hike in minimum recharge is lower than other packs. Postpaid benefit may take some time for its entire flow, as tariffs for new customers remain unchanged for six months. Finally, revenue growth translation can be 67% to 75% of tariff hike.

Risks

- **Downside:** 1) Lower-than-expected AGR revenue market share, and 4G subs base; 2) the company fails to get more equity capital; and 3) unfavourable regulatory policies or outcome on ongoing litigations.
- **Upside risks:** 1) Higher-than-expected revenue market share; and 2) higher FCF generation than estimated.

Exhibit 1: VIL consolidated financial

INR mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ (%)	YoY (%)
Revenue	1,06,555	1,07,163	1,06,731	1,06,068	1,05,083	(0.9)	(1.4)
Network operation cost	25,375	25,065	24,016	23,648	23,935	1.2	(5.7)
% of revenue	23.8	23.4	22.5	22.3	22.8		
Roaming & access charges	10,086	10,644	9,823	10,624	10,852	2.1	7.6
% of revenue	9.5	9.9	9.2	10.0	10.3		
License fees and spect charges	9,157	9,269	9,256	9,044	8,924	(1.3)	(2.5)
% of revenue	8.6	8.6	8.7	8.5	8.5		
Employee cost	5,003	5,348	5,432	5,441	5,467	0.5	9.3
% of revenue	4.7	5.0	5.1	5.1	5.2		
SGA and other exp	15,364	14,009	14,700	13,953	13,858	(0.7)	(9.8)
% of revenue	14.4	13.1	13.8	13.2	13.2		
EBITDA	41,570	42,828	43,504	43,358	42,047	(3.0)	1.1
EBITDA margin (%)	39.0	40.0	40.8	40.9	40.0		
EBITDA (adj for Ind AS)	20,200	20,600	21,400	21,800	21,000	(3.7)	4.0
EBITDA margin (%)	19.0	19.2	20.1	20.6	20.0		
Depreciation and amortisation	56,165	56,673	55,984	57,513	53,691	(6.6)	(4.4)
EBIT	(14,595)	(13,845)	(12,480)	(14,155)	(11,644)		
Interest	63,982	65,690	65,180	62,803	55,186	(12.1)	(13.7)
Other income	213	345	249	325	2,563		
PBT	(78,364)	(79,190)	(77,411)	(76,633)	(64,267)		
Share of profits(losses) in JV	(6)	(12)	(11)	(26)	1		
Provision for tax	30	8,177	(8)	87	55		
Effective tax rate	(0.0)	(10.3)	0.0	(0.1)	(0.1)		
Exceptional gain/ (loss)	-	-	7,555	-	-		
Net income (reported)	(78,400)	(87,379)	(69,859)	(76,746)	(64,321)		
EPS (INR)	(1.6)	(1.8)	(1.4)	(1.5)	(0.9)		

Source: I-Sec research, Company data

Exhibit 2: Subs continued to decline, down 2.9mn in Q1FY25

	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ (%)	YoY (%)
Subscribers (mn)	221	220	215	213	210	(1.4)	(5.1)
Net adds (mn)	(4.5)	(1.6)	(4.6)	(2.2)	(2.9)		
Prepaid subs as % of total	89.7	89.5	89.0	88.8	88.5		
Blended churn (%)	3.9	4.1	4.3	3.9	4.0		
ARPU (INR)	139	142	145	146	146	-	5.0
Minutes of Use (min/subs)	627	613	614	627	607	(3.2)	(3.2)
Minutes on Network (mn)	4,20,000	4,06,000	4,01,000	4,02,000	3,85,000	(4.2)	(8.3)
Incremental mins (QoQ, mn)	(5,000)	(14,000)	(5,000)	1,000	(17,000)		
2G cell sites	1,83,638	1,83,565	1,83,358	1,83,758	1,83,323	(0.2)	(0.2)

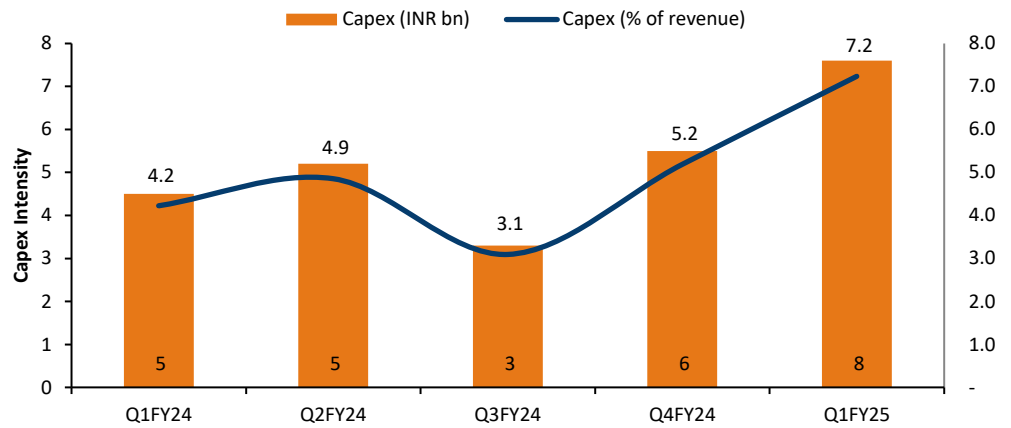
Source: I-Sec research, Company data

Exhibit 3: While data subs dipped, VIL was able to grow 4G subs by 0.4mn

	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	QoQ (%)	YoY (%)
Data (2G+3G+4G)							
Data subs (mn)	136	137	137	137	137	(0.3)	0.7
Net adds (mn)	0.9	1.3	0.2	(0.1)	(0.4)		
As % of total subs	61.4	62.4	63.8	64.5	65.2		
Data volume (mn MB)	60,02,000	61,19,000	60,04,000	60,49,000	61,11,000	1.0	1.8
Data usage per sub (MB)	16,041	16,186	15,738	15,812	15,961	0.9	(0.5)
4G data subs (mn)	122.9	124.7	125.6	126.3	126.7	0.3	3.1
Net adds (mn)	0.3	1.8	0.9	0.7	0.4		
3G/4G Cell sites	4,42,062	4,40,467	4,38,901	4,30,705	4,17,245	(3.1)	(5.6)
Net adds (3G/4G cell sites)	(1,475)	(1,595)	(1,566)	(8,196)	(13,460)		

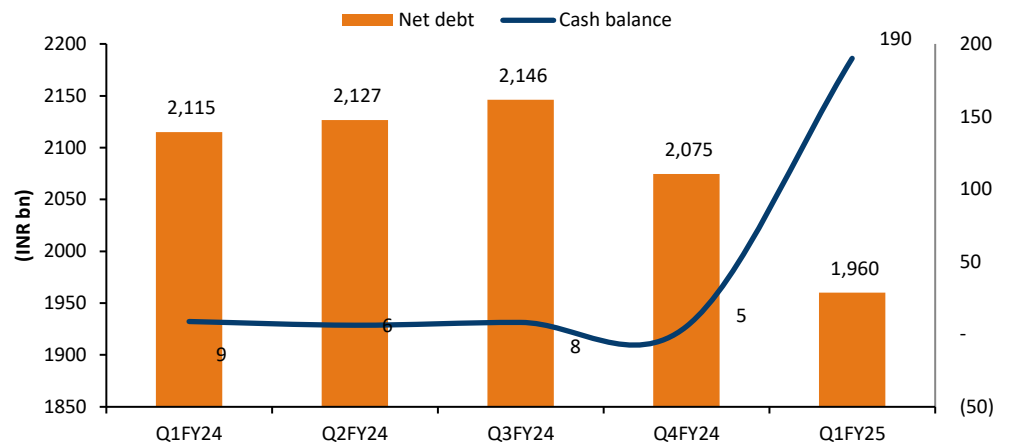
Source: I-Sec research, Company data

Exhibit 4: Capex intensity at 7.2% of revenue



Source: I-Sec research, Company data

Exhibit 5: Net debt decreased by INR 114bn on completion of INR 180bn FPO



Source: I-Sec research, Company data

Exhibit 6: VIL valuation snapshot

	FY27E
EBITDA (INR mn)	2,10,088
EV/EBITDA multiple	14
Enterprise value (INR mn)	29,41,236
Net debt (INR mn)	16,65,790
Equity value (INR mn)	12,75,446
No of outstanding shares (mn)	87,879
Value per share	15

Source: I-Sec research, Company data

Exhibit 7: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	50.4	48.9	37.2
Institutional investors	5.3	4.2	19.8
MFs and others	2.9	2.1	6.2
FIs/Banks, Insurance	0	0	0
Insurance	0.1	0.1	0.7
FIs	2.3	2	12.9
Others	44.3	46.9	43.0

Source: Bloomberg, I-Sec research

Exhibit 8: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 9: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	4,26,517	4,66,468	5,46,037	6,24,607
Operating Expenses	2,55,257	2,61,253	2,79,030	2,91,064
EBITDA	1,71,260	2,05,216	2,67,007	3,33,542
EBITDA Margin (%)	4,015.3	4,399.3	4,889.9	5,340.0
Depreciation & Amortization	2,26,335	2,37,648	2,46,385	2,48,349
EBIT	(55,075)	(32,432)	20,622	85,194
Interest expenditure	2,57,655	1,95,116	2,07,310	1,88,154
Other Non-operating Income	-	-	-	-
Recurring PBT	(3,11,653)	(2,26,359)	(1,85,440)	(1,01,650)
Profit / (Loss) from Associates	(55)	-	-	-
Less: Taxes	8,286	-	-	-
PAT	(3,12,384)	1,23,641	(1,85,440)	(1,01,650)
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	1,132	1,189	1,248	1,310
Net Income (Reported)	(3,12,384)	1,23,641	(1,85,440)	(1,01,650)
Net Income (Adjusted)	(3,19,939)	(2,26,359)	(1,85,440)	(1,01,650)

Source Company data, I-Sec research

Exhibit 10: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	1,29,098	1,70,456	1,51,582	1,75,340
of which cash & cash eqv.	5,362	41,076	12,551	30,508
Total Current Liabilities & Provisions	5,41,413	5,30,375	5,41,186	5,51,412
Net Current Assets	(4,12,315)	(3,59,918)	(3,89,604)	(3,76,073)
Investments	5	3	3	3
Net Fixed Assets	15,83,139	16,03,678	15,77,164	15,08,300
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,81,891	1,81,891	1,81,891	1,81,891
Total Intangible Assets	-	-	-	-
Other assets	1,37,737	1,31,967	1,21,692	1,07,952
Deferred Tax Assets	138	138	138	138
Total Assets	18,49,977	19,06,104	18,50,440	17,91,595
Liabilities				
Borrowings	20,76,298	18,26,298	19,46,298	16,96,298
Deferred Tax Liability	4	4	4	4
Provisions	209	229	268	306
Other Liabilities	3,21,057	3,13,813	3,12,738	2,95,277
Equity Share Capital	5,01,198	6,78,789	6,78,789	8,78,789
Reserves & Surplus	(15,42,866)	(13,96,066)	(15,81,506)	(15,83,156)
Total Net Worth	(10,41,668)	(7,17,277)	(9,02,717)	(7,04,367)
Minority Interest	-	-	-	-
Total Liabilities	18,49,977	19,06,104	18,50,440	17,91,595

Source Company data, I-Sec research

Exhibit 11: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	1,07,163	1,06,731	1,06,068	1,05,083
% Growth (YOY)	0.6	(0.4)	(0.6)	(1.4)
EBITDA	42,828	43,504	43,358	42,047
Margin %	40.0	40.8	40.9	40.0
Other Income	345	249	325	2,563
Extraordinaries	-	7,555	-	-
Adjusted Net Profit	(87,379)	(69,859)	(76,746)	(64,321)

Source Company data, I-Sec research

Exhibit 12: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	2,01,836	5,55,216	2,67,007	3,33,542
Working Capital Changes	6,425	(18,140)	10,400	743
Capital Commitments	(20,622)	(2,00,000)	(1,50,000)	(1,00,000)
Free Cashflow	1,87,639	3,37,076	1,27,407	2,34,286
Other investing cashflow	1,554	1,191	1,248	1,310
Cashflow from Investing Activities	1,554	1,191	1,248	1,310
Issue of Share Capital	1	2,00,750	-	3,00,000
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(73,988)	(2,50,000)	1,20,000	(2,50,000)
Dividend paid	-	-	-	-
Others	(87,138)	(58,187)	(69,870)	(79,486)
Cash flow from Financing Activities	(1,89,803)	(3,02,553)	(1,57,180)	(2,17,639)
Chg. in Cash & Bank balance	(610)	35,714	(28,524)	17,957
Closing cash & balance	1,678	41,076	12,551	30,508

Source Company data, I-Sec research

Exhibit 13: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	(6.2)	1.8	(2.7)	(1.2)
Adjusted EPS (Diluted)	(6.4)	(3.3)	(2.7)	(1.2)
Cash EPS	(1.9)	0.2	0.9	1.7
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	(20.8)	(10.6)	(13.3)	(8.0)
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	1.2	9.4	0.2	0.1
EBITDA	1.8	19.8	0.3	0.2
EPS (INR)	3.5	(129.2)	(2.5)	(0.6)
Valuation Ratios (x)				
P/E	(2.5)	8.5	(5.7)	(13.4)
P/CEPS	(8.3)	93.0	17.2	9.3
P/BV	(0.7)	(1.5)	(1.2)	(1.9)
EV / EBITDA	16.6	13.8	11.2	9.1
EV / Sales	6.7	6.1	5.5	4.8
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	-	-	-	-
EBITDA Margins (%)	40.2	44.0	48.9	53.4
Effective Tax Rate (%)	(2.7)	-	-	-
Net Profit Margins (%)	(73.2)	26.5	(34.0)	(16.3)
NWC / Total Assets (%)	(22.3)	(18.9)	(21.1)	(21.0)
Net Debt / Equity (x)	(2.0)	(2.5)	(2.1)	(2.4)
Net Debt / EBITDA (x)	12.1	8.7	7.2	5.0
Profitability Ratios				
RoCE (%)	(4.9)	(3.0)	1.9	8.4
RoE (%)	35.0	(14.1)	22.9	12.7
RoIC (%)	(4.9)	(3.1)	2.0	8.6
Fixed Asset Turnover (x)	0.1	0.1	0.2	0.2
Inventory Turnover Days	0.0	0.0	0.0	0.0
Receivables Days	18.8	17.8	16.8	15.8
Payables Days	117.5	105.5	90.5	80.5

Source Company data, I-Sec research

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