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India | Equity Research | Company Update

Vodafone Idea

Telecom

VIL plans on track despite set-back on AGR curative petition

Despite India's Supreme Court rejecting the curative petition for AGR dues, VIL is hopeful towards a resolution of the arithmetical error in the AGR dues calculation; it has been engaging with the government on the subject. VIL said that its case has strong merit, and dialogue with the government is and has been encouraging. Also, VIL is factoring in INR 290bn of government debt – to be converted into equity at the end of the moratorium period, as per the reform package. VIL is nearing closure of debt funding of INR 250bn; another INR 100bn for non-fund facilities that should help boost capex. VIL also signed deals with major equipment suppliers for INR 300bn, for radios to be supplied over the next three years; it expects capex to kick start from Nov'24. VIL also envisages another tariff hike of 15–20% in 15 months.

VIL still hopeful on relief from resolution of error in AGR calculation

The Supreme Court of India has rejected the curative petition filed by telcos praying for reconciliation of AGR dues. Telcos workings suggest that the AGR calculations have arithmetical errors and the actual dues are significantly lower. The curative petition has been rejected, as the case is not fit to be tried as a petition; hence, merits of the case were not looked upon. VIL believes it still has the option to seek relief from the government where they are actively engaged; and the government's support remains unwavering. They believe, the government continues to support three private telco industry structure, and VIL had strong engagement with the government on various issues including AGR dues.

VIL nearing completion of debt funding

The company has completed the major process of techno-economic evaluation, and it has submitted the evaluation results to banks and financial institutions. VIL expects to complete raising of INR 250bn of funded debt, and INR 100bn of non-funded debt (will be used for letter of credit). LCs will help the company import or procure radios and other telecom equipment. The company's capex plan remains firm at INR 500–550bn over the next three years, and it has signed radio suppliers Nokia, Ericsson and Samsung for a total requirement of INR 300bn. Remainder capex includes investment in core, and transmission (fiber). VIL's plan suggests that it will likely see higher spend on 5G in the next three years compared to 4G. The company will likely expand its 4G coverage from 1.03bn population coverage to 1.2bn; and potentially scale-up its 4G site from 170k to 250k. VIL expects capex to start from Nov'24, as it procures radio supplies from vendors.

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)	(2,37,609)	(1,92,490)	(1,19,100)
EPS (INR)	(6.4)	(3.5)	(2.8)	(1.4)
EPS % Chg YoY	3.5	(43.8)	(1.7)	(1.6)
P/E (x)	(1.7)	(3.1)	4.7	(8.0)
EV/EBITDA (x)	15.3	13.6	9.9	8.1
RoCE (%)	(4.9)	(2.2)	2.3	7.0
RoE (%)	35.0	22.4	(15.8)	14.3

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Market Data

Market Cap (INR)	736bn
Market Cap (USD)	8,811mn
Bloomberg Code	IDEA IN
Reuters Code	VODA BO
52-week Range (INR)	19 /10
Free Float (%)	34.0
ADTV-3M (mn) (USD)	138.9

Price Performance (%)	3m	6m	12m
Absolute	(36.9)	(18.6)	(4.2)
Relative to Sensex	(46.9)	(35.3)	(32.9)

Previous Reports

14-08-2024: [Q1FY25 results review](#)

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

VIL believes it has cashflow to sustain operations

VIL has not factored an AGR resolution into its business plan; therefore, rejection of the curative petition does not derail its recovery efforts. However, the company has factored in conversion of interest within EMI to equity by government at the end of the moratorium period (as announced in reform package) of INR 290bn. Cashflow towards government dues in FY26 is INR 290bn, of which INR 120bn is likely to be converted into equity; and in FY27, the total government payment shall be INR 430bn, of which INR 170bn is likely to be converted into equity. VIL's capex of INR 500–550bn should be funded through equity (FPO of INR 180bn completed) alongside INR 250bn of debt. FCF will likely be channeled into paying government dues, and creditors liabilities.

VIL expects another tariff hike in 15 months

VIL expects another tariff hike of 15–20% in 15 months, which will help the company grow revenue, EBITDA and FCF. The company also has strong gross subs add while net adds have been negative due to elevated churn. It believes 4G rollout should help the company improve customer retention, resulting in growing subs base.

Target price cut to INR 11 (from INR 15)

We have pushed our estimate on AGR relief of INR 350bn from FY25E to FY26E, and capex acceleration to FY26E. This has led to a change in our net profit estimate for the period of FY25–27E while EBITDA remains unchanged. Considering the risk of AGR resolution rising, we cut our EV/EBITDA multiple to 13x FY27E (from 14x); consequently, our target price stands reduced to INR 11 (from INR 15). Maintain **HOLD**.

Exhibit 1: Earnings Revision

	Revised			Earlier			% change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
KPIs									
Subs (mn)	221	229	237	221	229	237	-	-	-
ARPU (INR)	159	181	202	159	181	202	-	-	-
Financial (INR mn)									
Revenue	4,66,468	5,46,037	6,24,607	4,66,468	5,46,037	6,24,607	-	-	-
EBITDA	2,05,216	2,67,007	3,33,542	2,05,216	2,67,007	3,33,542	-	-	-
EBITDA margin (%)	44.0	48.9	53.4	44.0	48.9	53.4	-	-	-
PAT	(2,37,609)	1,57,510	(1,19,100)	1,23,641	(1,85,440)	(1,01,650)	-	-	-
EPS (INR)	(3.5)	2.3	(1.4)	1.8	(2.7)	(1.2)	-	-	-

Source: I-Sec research, Company data

Exhibit 2: VIL valuation snapshot

	FY27E
EBITDA (INR mn)	2,10,088
EV/EBITDA multiple	13
Enterprise value (INR mn)	27,31,147
Net debt (INR mn)	17,59,140
Equity value (INR mn)	9,72,007
No of outstanding shares (mn)	87,879
Value per share	11

Source: I-Sec research, Company data

Exhibit 3: 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
FII	2.3	2	12.9
Others	44.3	46.9	43.0

Source: Bloomberg, I-Sec research

Exhibit 4: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 5: 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	2,27,648	2,42,385	2,54,749
EBIT	(55,075)	(22,432)	24,622	78,794
Interest expenditure	2,57,655	2,16,366	2,18,360	1,99,204
Other Non-operating Income	-	-	-	-
Recurring PBT	(3,11,653)	(2,37,609)	(1,92,490)	(1,19,100)
Profit / (Loss) from Associates	(55)	-	-	-
Less: Taxes	8,286	-	-	-
PAT	(3,12,384)	(2,37,609)	1,57,510	(1,19,100)
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	1,132	1,189	1,248	1,310
Net Income (Reported)	(3,12,384)	(2,37,609)	1,57,510	(1,19,100)
Net Income (Adjusted)	(3,19,939)	(2,37,609)	(1,92,490)	(1,19,100)

Source Company data, I-Sec research

Exhibit 6: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	1,29,098	1,49,206	2,99,282	2,11,990
of which cash & cash eqv.	5,362	19,826	1,60,251	67,158
Total Current Liabilities & Provisions	5,41,413	5,30,375	5,41,186	5,51,412
Net Current Assets	(4,12,315)	(3,81,168)	(2,41,904)	(3,39,423)
Investments	5	3	3	3
Net Fixed Assets	15,83,139	15,13,678	15,41,164	15,65,900
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	17,94,854	19,62,140	18,85,845
Liabilities				
Borrowings	20,76,298	20,76,298	20,76,298	18,26,298
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)	(17,57,316)	(15,99,806)	(16,18,906)
Total Net Worth	(10,41,668)	(10,78,527)	(9,21,017)	(7,40,117)
Minority Interest	-	-	-	-
Total Liabilities	18,49,977	17,94,854	19,62,140	18,85,845

Source Company data, I-Sec research

Exhibit 7: 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 8: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	2,01,836	2,05,216	6,17,007	3,33,542
Working Capital Changes	6,425	(18,140)	10,400	743
Capital Commitments	(20,622)	(1,00,000)	(2,00,000)	(2,00,000)
Free Cashflow	1,87,639	87,076	4,27,407	1,34,286
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)
Dividend paid	-	-	-	-
Others	(87,138)	(58,187)	(69,870)	(79,486)
Cash flow from Financing Activities	(1,89,803)	(73,803)	(2,88,230)	(2,28,689)
Chg. in Cash & Bank balance	(610)	14,464	1,40,426	(93,093)
Closing cash & balance	1,678	19,826	1,60,251	67,158

Source Company data, I-Sec research

Exhibit 9: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	(6.2)	(3.5)	2.3	(1.4)
Adjusted EPS (Diluted)	(6.4)	(3.5)	(2.8)	(1.4)
Cash EPS	(1.9)	(0.1)	0.7	1.5
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	(20.8)	(15.9)	(13.6)	(8.4)
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	(43.8)	(1.7)	(1.6)
Valuation Ratios (x)				
P/E	(1.7)	(3.1)	4.7	(8.0)
P/CEPS	(5.8)	(73.7)	14.7	7.0
P/BV	(0.5)	(0.7)	(0.8)	(1.3)
EV / EBITDA	15.3	13.6	9.9	8.1
EV / Sales	6.1	6.0	4.9	4.3
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)	(50.9)	28.8	(19.1)
NWC / Total Assets (%)	(22.3)	(21.2)	(12.3)	(18.0)
Net Debt / Equity (x)	(2.0)	(1.9)	(2.1)	(2.4)
Net Debt / EBITDA (x)	12.1	10.0	7.2	5.3
Profitability Ratios				
RoCE (%)	(4.9)	(2.2)	2.3	7.0
RoE (%)	35.0	22.4	(15.8)	14.3
RoIC (%)	(4.9)	(2.2)	2.5	7.8
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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