27 February 2024

Company Update | Sector: Telecom

Vodafone Idea

BSE SENSEX	S&P CNX
73,095	22,198

Bloomberg	IDEA IN
Equity Shares (m)	48680
M.Cap.(INRb)/(USDb)	771.6 / 9.3
52-Week Range (INR)	18 / 6
1, 6, 12 Rel. Per (%)	5/67/109
12M Avg Val (INR M)	3358
Free float (%)	49.6

Financials & Valuations (INR b)

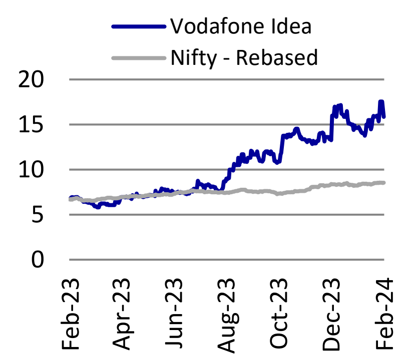
INR b	FY23	FY24E	FY25E
Net Sales	422	428	457
EBITDA	168	172	198
Adj. PAT	-293	-324	-274
EBITDA Margin (%)	39.9	40.2	43.4
Adj. EPS (INR)	-10.2	-11.3	-9.5
EPS Gr. (%)	3.1	10.6	-15.4
BV/Sh. (INR)	-23.2	-33.0	-41.5
Ratios			
Net D:E	-3.3	-2.4	-2.0
RoE (%)	NM	NM	NM
RoCE (%)	-3.9	-3.7	-2.4
Payout (%)	0.0	0.0	0.0
Valuations			
EV/EBITDA (x)	19.1	19.1	17.0
P/E (x)	-1.6	-1.4	-1.7
P/B (x)	-0.7	-0.5	-0.4
Div. Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	50.4	50.4	75.0
DII	36.2	35.0	1.3
FII	2.3	2.5	3.6
Others	11.2	13.4	20.1

FII Includes depository receipts

Stock performance (one-year)



CMP: INR16 | **TP: INR14 (-12%)** | **Neutral**

Continued efforts toward fund raising

In line with management statements over the past 4-6 quarters regarding the fund raising, the Vodafone Idea (VIL) board has approved an equity fund raise of up to INR200b, with participation from the promoters. The total fund raise, comprising both equity and debt, amounts to INR450b. It is expected that the equity fund raise will occur in the next quarter. However, post moratorium ends in FY26, the company's annual obligation would be ~INR430b vs EBITDA of INR84b, presenting a significant risk.

Fund raise positive for network expansion

The Vodafone Idea (VIL) board has approved the fund raise of up to INR200b via equity/equity-linked instruments and is engaged with lenders for debt funding. The total fund raise, comprising both equity and debt, amounts to INR450b. Upon completion of the fund raise, the company will have the capability to invest in the expansion of its 4G network and deployment of 5G technology. The shareholders meeting will be held on 2nd April and post-shareholder approval, the company expects to finalize the equity fund raise in the coming quarter. The absence of these investments posed a risk for VIL, causing a shift of its premium subscribers to Bharti/RJio networks and has adversely impacted VIL's network capability, consequently leading to elevated customer churn. The infusion of funds (equity + debt) will bolster the company's network infrastructure.

Tall task to fulfill the annual obligation from FY26

The four-year spectrum moratorium will end on Oct'25 and AGR moratorium on Mar'26, leading to a combined annual installment of ~INR430b vs. the FY24 EBITDA of INR84b (pre-INDAS 116), which is continuously witnessing an adverse impact of market share. The net debt stands tall at INR2.1t (excluding lease labilities), out of which, current spectrum/AGR dues stand at INR2.07t and market debt at INR77b.

EBITDA may suffice regular operation, but not capex

The company expects to generate INR84b of EBITDA (pre Ind-AS 116) in FY24, which may be utilized toward either the full or partial settlement of: a) INR54b debt payable till Dec'24 and b) Indus monthly dues. For FY24, Bharti India's business/RJio's capex stand at ~INR330b/INR380 (annualized). To meet such capex requirements, the company needs to raise funds. The operating profit enables it to cover regular operating and maintenance capex.

Earlier fund raises

This funding has been pending for a long time. VIL's promoters had earlier infused INR45b (in Mar'22) to settle dues with Indus Tower and fulfill NCD repayment commitments. The Government has converted the interest related to the four-year moratorium on deferred spectrum and AGR liability into equity (in Apr'23). One of the promoters also assured to provide funds for meeting impending payment obligations, committing up to INR20b (in Jun'23).

Valuation and view

- The capex directed toward the rollout of 4G and 5G holds significant importance. Hence, the much-awaited capital raise is crucial, as it is essential to ensure immediate liquidity and facilitate the expansion of the network.
- The company still holds a debt of INR2.1t with an annual installment of INR430b from FY26 onwards. This looks challenging against FY24 EBITDA (IND-AS 116) of INR84b.
- The significant amount of cash required to service debt leaves limited upside opportunities for equity holders, even with the potential operating leverage benefits from any increase in ARPU. Given the current low EBITDA, servicing the debt without external funding will be challenging. Assuming a 14x EV/EBITDA ratio, coupled with a net debt of INR2.1t, leaves limited opportunities for equity shareholders.

Exhibit 1: Valuation on FY26E

	Methodology	Driver	Multiple	Fair Value (INR b)	Value/sh (INR)
Consol. EBITDA	EV/EBITDA	236	14	3,366	69
Less Net debt					2,662
Total Value				**705**	**14**
Shares o/s (b)				48.7	
CMP (INR)					15.9
Upside (%)					**-9**

Source: MOFSL, Company

Exhibit 2: VIL's debt position (INR b)

Net debt classification	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Spectrum debt	1,398	1,307	1,337	1,351	1,382
Market debt and OCD	132	130	111	95	77
Total debt	**1,530**	**1,437**	**1,449**	**1,446**	**1,460**
Cash and equivalents	2	2	3	1	3
Net debt excluding AGR	1,528	1,435	1,446	1,445	1,456
AGR dues	699	656	669	682	690
Net debt including AGR	**2,227**	**2,090**	**2,115**	**2,127**	**2,147**

Source: MOFSL, Company