Vodafone Idea Limited

August 13, 2021

Ratings

Facilities/ Instruments*	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	37,562.87	**CARE B-; Under Credit Watch with Negative Implications [Single B Minus; Under Credit Watch with Negative Implications]**	**Revised from CARE B+ (Single B Plus); Continues to be on Credit watch with Negative Implications**
Total Bank Facilities	**37,562.87 (Rs. Thirty-Seven Thousand Five Hundred Sixty-Two Crore and Eighty-Seven Lakhs Only)**		
Non Convertible Debentures	6,000.00	**CARE B-; Under Credit Watch with Negative Implications [Single B Minus; Under Credit Watch with Negative Implications]**	**Revised from CARE B+ (Single B Plus); Continues to be on Credit watch with Negative Implications**
Non Convertible Debentures	1,500.00	**CARE B-; Under Credit Watch with Negative Implications [Single B Minus; Under Credit Watch with Negative Implications]**	**Revised from CARE B+ (Single B Plus); Continues to be on Credit watch with Negative Implications**
Total Long Term Instruments	**7,500.00 (Rs. Seven Thousand Five Hundred Crore Only)**		

* Details of facilities/instruments in Annexure 1

CARE continues to place long-term ratings of Vodafone Idea Limited (VIL) on Credit Watch with Negative Implications on account of ongoing evaluation of fund raising options critical towards upcoming repayment obligations of the company and payment of Adjusted Gross Revenue (AGR) dues by the company in FY22.

CARE continues to monitor the developments pertaining to fund raising by VIL and will take appropriate rating action based on the outcome of the same.

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities and instruments of VIL follows significant deterioration of financial risk profile of the company in FY21 (refers to period April 01, to March 31,), wherein the net-worth of the company has eroded due to adjustment of exceptional item related to AGR dues and the dismissal of VIL's plea seeking re-computation of the AGR dues as per the order of Hon'ble Supreme Court dated July 23, 2021. As a result, the solvency profile of the company has worsened. The rating also factors in significant repayment obligations from Q3FY22 onwards, against which the company's operating cash accruals are likely to remain insufficient. Due to aforementioned developments CARE believes the financial flexibility of VIL stands compromised, further accentuated by the changes at Board level composition and absence of funding support from promoters.

The rating continues to be constrained by prevalent intense competition in Indian Telecom industry impacting VIL's operational performance, moderate financial risk profile. Going forward, the ability of the company to raise funds to support its operation remains a key rating monitorable.

The rating, however, continues to derive strength from established promoter groups (i.e., Aditya Birla Group and Vodafone Group PLC), experienced management team and pan-India telecom presence with high brand recognition.

Rating Sensitivities

Positive Factors – *Factors that could lead to positive rating action/upgrade:*

- Improvement of overall financial risk profile of the company on a sustained basis

Negative Factors – *Factors that could lead to negative rating action/downgrade:*

- Delay in asset monetization plans thereby moderating VIL's liquidity profile and debt coverage indicators

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Detailed description of the key rating drivers
Key Rating Weaknesses
Judgement by Hon'ble Supreme Court on AGR dues payable by VIL to DoT
Hon'ble Supreme Court in its ruling on September 01, 2020 directed telecom companies to pay 10 percent of total AGR dues by March 31, 2021 and balance amount in annual installments commencing from April 01, 2021 upto March 31, 2031 payable by March 31 of every succeeding financial year. The AGR dues for VIL aggregated to Rs.58,250 crore upto FY2016-17 on basis of preliminary assessment by DoT. VIL has already paid Rs. 7,854 crore towards AGR dues to DoT as on March 31, 2021. Further, on September 04, 2020, the Board of Directors of VIL approved the raising of funds through (1) issue of equity shares or securities convertible into equity shares, Global Depository Receipts, American Depository Receipts, foreign currency convertible bonds, convertible debentures, warrants, composite issue of non-convertible debentures and warrants entitling the warrant holder(s) to apply for equity shares or a combination thereof up to an aggregate amount of Rs. 15000 crore by way a public issue, preferential allotment, private placement, qualified institutions placement or through any other permissible mode in one or more tranches; and (2) issuance of unsecured and / or secured, non-convertible debentures up to an aggregate amount of Rs. 15,000 crore, by way of public offering or private placement basis or otherwise, in one or more tranches. However, the total raising of funds shall not exceed Rs. 25,000 crore. As on August 8, 2021, the company is evaluating various fund raising options. VIL had also filed a review plea with Hon'ble Supreme Court seeking re-computation of the AGR dues by the company, which has been dismissed by the court vide its order dated July 23, 2021. The company has subsequently filed a review petition with the Hon'ble Supreme Court against the order passed by the Hon'ble Supreme Court dated July 23, 2021. As such, the AGR dues work out to around Rs. 60,960 crore as on March 31, 2021. Going forward its ability to raise finances to support its operation, debt repayments and annual AGR dues appears weak and remains key rating monitorable.

Prevalent intense competition in Indian Telecom industry impacting VIL's operational performance
Revenue of the company marginally dipped in FY21 as compared to FY20 despite increase in tariff in December 2019 due to prevalent intense competition in Indian Telecom industry leading to lower ARPU levels. ARPU decreased for Q4FY21 at Rs.107 as compared to Rs.121 in Q4FY20 on account of discontinuation of IUC (Interconnection Usage Charges) starting January 01, 2021. The subscriber base declined to 268 million in Q4FY21 from 291 million in Q4FY20. The subscriber churn increased to 3.0% in Q4FY21 as compared to 2.3% in Q3FY21. Further, PBILDT levels improved in FY21 as compared to FY20 on account of implementation of cost optimization plan.

Moderate financial risk profile of the company
VIL continues to report moderate financial risk profile in FY21. The loss of the company dipped to Rs. 44,233 crore in FY21 as compared to Rs. 73,878 crore in FY20 on account of lower provisioning of AGR dues as per judgement of Hon'ble Supreme Court, wherein AGR dues were to be repaid over the span of 10 years. Consequently, to higher level of losses in FY21, the networth of the company got eroded. As on March 31, 2021, networth of VIL was at negative Rs. 38,228 crore. Further, the independent auditor's report on quarterly and year to date unaudited consolidated financial results of the company mentions material uncertainty on going concern of the company. Gross debt (excluding lease liabilities) as on March 31, 2021, was Rs. 1,80,310 crore, including deferred spectrum payment obligations of Rs.96,270 crore and AGR dues of Rs.60,960 crore payable to the Government. Further, the company has bulky repayments due from Q3FY22 onwards (Rs.2,384 crore during Q3FY22 and Rs.4,871 crore during Q4FY22), thereby putting additional burden on the existing cash accruals of the company. CARE will continue to monitor closely the fund raising and asset monetization plans of the company, which would be critical to support its operations.

Key Rating Strengths
Established promoter groups
VIL is a part of Aditya Birla Group (ABG) and Vodafone Group Plc (VGP). Aditya Birla Group is one of the largest and oldest corporate houses in India with multinational presence. ABG led by Mr. Kumar Mangalam Birla has leading presence across several sectors including metals, cement, telecom, financial services, textiles and other manufacturing industries in the country. The group's operations span over 36 countries. VGP is one of the world's largest telecommunications companies and provides a range of services including voice, messaging, data and fixed communications. VGP has mobile and fixed network operations in 21 countries and partners with mobile networks in 49 more, and fixed broadband operations in various markets.
VIL's operations are handled by team of experienced and professionally qualified personnel headed by Mr. Ravinder Takkar as Managing Director and Chief Executive Officer. Further, the Board of VIL has elected Mr. Himanshu Kapania, as the Non-Executive Chairman w.e.f August 05, 2021, post exit of Mr. Kumar Mangalam Birla. Mr. Kapania, a nominee of the Aditya Birla Group, has 25 years of experience which includes significant board experience in telecom companies globally.

Industry Outlook:
The Indian Telecom sector has been witnessing a lot of volatility for the past few years. The sector has seen intensified competition which has also resulted in consolidation among the players. The increase in the subscriber addition of larger

operators is primarily due to exit of the smaller players. However, the increase in subscribers has not brought proportionate incremental revenue to the telcos on account of intense competition in the sector which had led to limited scope for increasing the tariffs. Development of new technologies and the rapid change in technology had led to increased challenges for the players with regards to return on investments in the current technology and additional investments in the new technology. However, the Digital India programme promoted by the government, increase in usage of e-wallets and banking applications are expected to increase the usage of mobile data consumption in the coming years.

Liquidity: Poor
Cash and cash equivalent (excluding margin deposits) as on March 31, 2021, stood at Rs.350.30 crore. The total debt repayment obligation for period August 1, 2021 to March 31, 2022 is around Rs.7,695 crore. Going forward the adequacy of available funds to meet debt obligations remains to be seen. With negative networth of the company as on March 31, 2021, there is very limited headroom for VIL to incur any capital expenditure and raise funds to support its operations.

Analytical approach: Consolidated
List of subsidiaries and associated entities consolidated:

S.No.	Name of the company	% shareholding as on March 31, 2021
1	Vodafone M-Pesa Limited	100.00%
2	Vodafone Idea Manpower Services Limited (formerly Idea Celluar Services Limited)	100.00%
3	Vodafone Idea Business Services Limited (formerly Vodafone Business Services Limited)	100.00%
4	Vodafone Idea Communication Systems Limited (formerly Mobile Commerce Solutions Limited)	100.00%
5	Vodafone Idea Shared Services Limited (formerly Vodafone India Ventures Limited)	100.00%
6	Vodafone Idea Technology Solutions Limited (formerly Vodafone Technology Solutions Limited)	100.00%
7	You Broadband India Limited	100.00%
8	Vodafone Foundation	100.00%
9	Vodafone Telecom Infrastructure Limited (formerly Vodafone Towers Limited)	100.00%
10	Connect (India) Mobile Technologies Private Limited	100.00%
11	Firefly Networks Limited^	50.00%

^ Joint Venture

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Consolidation
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Mobile Service Providers
CARE's Policy on Curing period

About the Company
Vodafone Idea Limited is an Aditya Birla Group (ABG) and Vodafone Group partnership. Vodafone Group owns 44.39% stake and ABG owns 27.66% stake as on June 30, 2021 in VIL. With pan-India operation, the company is one of the largest telecom operators providing voice, data, enterprise and other value added services across 22 service areas. As on May 31, 2021, the total subscriber base of the company stood at 278.16 million with a wireless subscriber base of 277.62 million, as reported by TRAI.
Aditya Birla Group is one of India's largest conglomerates having its presence across 36 countries. Vodafone Group is one of the world's largest telecommunications companies having mobile and fixed network operations in 21 countries and, partners with mobile networks in 49 more and fixed broadband operations in various markets.

Brief Financials (Rs. crore) (Consolidated)	FY20 (A)*	FY21 (A)*
Total operating income	45,996.80	42,126.40
PBILDT	15,951.80	17,119.90
PAT	-73,878.10	-44,233.10
Overall Gearing	23.73	N.M
Interest Coverage	1.04	0.95

A: Audited; N.M: Not Meaningful
* Financials have been reclassified as per CARE standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN no	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT-Bank Guarantees/Letter of Credit	-	-	-	-	23,737.06	CARE B- (Under Credit watch with Negative Implications)
Term Loan-Long Term	-	-	-	June 30, 2026	13,825.81	CARE B- (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	INE669E08250	December 13, 2016	7.57%	December 13, 2021	1,500.00	CARE B- (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	INE669E08268	January 04, 2017	7.77%	January 04, 2022	1,000.00	CARE B- (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	INE669E08276	January 17, 2017	7.77%	January 17, 2022	500.00	CARE B- (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	INE669E08284	January 27, 2017	8.04%	January 27, 2022	2,000.00	CARE B- (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	INE669E08292	January 31, 2017	8.03%	January 31, 2022	500.00	CARE B- (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	INE669E08300	February 14, 2017	8.03%	February 14, 2022	500.00	CARE B- (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	INE669E08318	September 03, 2018	10.90%	September 02, 2023	1,500.00	CARE B- (Under Credit watch with Negative Implications)

Annexure-2: Rating History of last three years

Sr. No	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Non-fund-based - LT-BG/LC	LT	23737.06	CARE B- (CWN)	-	1)CARE B+ (CWN) (07-Jan-21) 2)CARE B+ (CWN) (24-Aug-20) 3)CARE BB- (CWN) (28-May-20)	1)CARE BB- (CWN) (17-Feb-20) 2)CARE BBB- (CWN) (22-Nov-19) 3)CARE A- (CWN) (30-Oct-19) 4)CARE A; Negative (08-Aug-19) 5)CARE A+; Negative (10-Jun-19)	1)CARE AA-; Negative (21-Feb-19) 2)CARE AA-; Negative (15-Feb-19) 3)CARE AA; Negative (26-Nov-18) 4)CARE AA; Negative (13-Nov-18) 5)CARE AA; Negative (26-Sep-18) 6)CARE AA; Negative (11-Sep-18) 7)CARE AA (CWD) (03-Jul-18) 8)CARE AA (CWD) (08-Jun-18)
2.	Term Loan-Long Term	LT	13825.81	CARE B- (CWN)	-	1)CARE B+ (CWN) (07-Jan-21) 2)CARE B+ (CWN) (24-Aug-20) 3)CARE BB- (CWN) (28-May-20)	1)CARE BB- (CWN) (17-Feb-20) 2)CARE BBB- (CWN) (22-Nov-19) 3)CARE A- (CWN) (30-Oct-19) 4)CARE A; Negative (08-Aug-19) 5)CARE A+; Negative (10-Jun-19)	1)CARE AA-; Negative (21-Feb-19) 2)CARE AA-; Negative (15-Feb-19) 3)CARE AA; Negative (26-Nov-18) 4)CARE AA; Negative (13-Nov-18) 5)CARE AA; Negative (26-Sep-18) 6)CARE AA; Negative (11-Sep-18) 7)CARE AA (CWD) (03-Jul-18) 8)CARE AA (CWD) (08-Jun-18)
3.	Fund-based - LT-Bank Overdraft	LT	-	-	-	1)Withdrawn (28-May-20)	1)CARE BB- (CWN) (17-Feb-20) 2)CARE BBB- (CWN) (22-Nov-19) 3)CARE A- (CWN) (30-Oct-19) 4)CARE A; Negative (08-Aug-19) 5)CARE A+; Negative (10-Jun-19)	1)CARE AA-; Negative (21-Feb-19) 2)CARE AA-; Negative (15-Feb-19) 3)CARE AA; Negative (26-Nov-18) 4)CARE AA; Negative (13-Nov-18) 5)CARE AA; Negative (26-Sep-18) 6)CARE AA; Negative (11-Sep-18) 7)CARE AA (CWD) (03-Jul-18) 8)CARE AA (CWD) (08-Jun-18)
4.	Debentures-Non Convertible Debentures	LT	6000.00	CARE B- (CWN)	-	1)CARE B+ (CWN) (07-Jan-21) 2)CARE B+	1)CARE BB- (CWN) (17-Feb-20) 2)CARE BBB-	1)CARE AA-; Negative (15-Feb-19) 2)CARE AA; Negative (26-Nov-18)

						(CWN) (24-Aug-20) 3)CARE BB- (CWN) (28-May-20)	(CWN) (22-Nov-19) 3)CARE A- (CWN) (30-Oct-19) 4)CARE A; Negative (08-Aug-19) 5)CARE A+; Negative (10-Jun-19)	3)CARE AA; Negative (13-Nov-18) 4)CARE AA; Negative (11-Sep-18) 5)CARE AA (CWD) (03-Jul-18) 6)CARE AA (CWD) (08-Jun-18)
5.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (08-Aug-19) 2)CARE A1+ (10-Jun-19)	1)CARE A1+ (15-Feb-19) 2)CARE A1+ (26-Nov-18) 3)CARE A1+ (13-Nov-18) 4)CARE A1+ (11-Sep-18) 5)CARE A1+ (CWD) (03-Jul-18) 6)CARE A1+ (CWD) (08-Jun-18)
6.	Debentures-Non Convertible Debentures	LT	1500.00	CARE B- (CWN)	-	1)CARE B+ (CWN) (07-Jan-21) 2)CARE B+ (CWN) (24-Aug-20) 3)CARE BB- (CWN) (28-May-20)	1)CARE BB- (CWN) (17-Feb-20) 2)CARE BBB- (CWN) (22-Nov-19) 3)CARE A- (CWN) (30-Oct-19) 4)CARE A; Negative (08-Aug-19) 5)CARE A+; Negative (10-Jun-19)	1)CARE AA-; Negative (15-Feb-19) 2)CARE AA; Negative (26-Nov-18) 3)CARE AA; Negative (13-Nov-18) 4)CARE AA; Negative (11-Sep-18) 5)CARE AA (CWD) (23-Aug-18)
7.	Non-fund-based - ST-BG/LC	ST	-	-	-	-	1)Withdrawn (08-Aug-19) 2)CARE A1+ (10-Jun-19)	1)CARE A1+ (21-Feb-19) 2)CARE A1+ (15-Feb-19) 3)CARE A1+ (26-Nov-18) 4)CARE A1+ (13-Nov-18) 5)CARE A1+ (26-Sep-18)
8.	Fund-based - ST-Term loan	ST	-	-	-	-	1)Withdrawn (08-Aug-19) 2)CARE A1+ (10-Jun-19)	1)CARE A1+ (21-Feb-19) 2)CARE A1+ (15-Feb-19) 3)CARE A1+ (26-Nov-18) 4)CARE A1+ (13-Nov-18) 5)CARE A1+ (26-Sep-18)

9.	Fund-based - ST-Term loan	ST	-	-	-	-	1)Withdrawn (10-Jun-19)	1)CARE A1+ (21-Feb-19)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures – Non Convertible Debentures	Simple
2.	Non-fund-based – LT – BG/LC	Simple
3.	Term Loan – Long Term	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarification*

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