Vodafone Idea Limited

March 16, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	15,946.00	CARE B+; Positive	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	2,000.00	CARE A4	Reaffirmed
Non Convertible Debentures	1,500.00	CARE B+; Positive	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities and instruments of Vodafone Idea Limited (VIL) factors the established promoter groups (i.e., Aditya Birla Group, ABG and Vodafone Group Plc, VGP), experienced management team, pan-India telecom presence with high brand recognition and a stable outlook for the Indian telecommunications industry. Furthermore, the ratings take cognisance of fund infusion by promoters of around Rs.5,000 crore, conversion of interest dues in to equity stake of Department of Investment and Public Asset Management, Government of India towards 4-year deferment of spectrum auction instalment & AGR dues and issuance of Rs.1,600 crore optionally convertible debentures (OCDs) to ATC Telecom Infrastructure Private Limited (ATC TIPL, rated CARE AA-; Stable), which were partly utilised to pay amounts owed by VIL to ATC TIPL and balance towards general corporate purposes of the company.

The ratings, however, remain underpinned by VIL's deteriorated financial risk profile, wherein, the tangible net-worth has eroded, its constantly declining subscriber base and delay in raising funds from financial institutions and investors. Furthermore, the ratings take into account the company's exposure to the inherent regulatory risks of the industry and the intensely competitive business environment. Going forward, the ability of the company to raise funds to address the existing strain in liquidity and undertake capex to implement 5G to augment the subscriber base & consequent improvement in revenues will be a key rating monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Successful tie-up of term loans from banks/FIs including infusion of equity leading to improvement in financial risk profile of the company on a sustained basis.

Negative factors

- Delay in fund raising plans (including equity infusion) thereby moderating VIL's liquidity profile and debt coverage indicators.

Analytical approach: Consolidated

List of subsidiaries and associated entities getting consolidated:

S.No.	Name of the company	% shareholding as on September 30, 2022
1	Vodafone Idea Manpower Services Limited	100.00%
2	Vodafone Idea Business Services Limited	100.00%
3	Vodafone Idea Communication Services Limited	100.00%
4	Vodafone Idea Shared Services Limited	100.00%
5	You Broadband India Limited	100.00%
6	Vodafone Foundation	100.00%
7	Vodafone Idea Telecom Infrastructure Limited	100.00%
8	Vodafone Idea Technology Solutions Limited	100.00%
9	Connect India Mobile Technologies Private Limited*	100.00%
10	Vodafone M-Pesa Limited	100.00%
11	Firefly Networks Limited^	50.00%

^ Joint Venture;*Merged with VICSL

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Outlook: Positive

The outlook for the bank facilities of Vodafone Idea Limited has been revised from 'Stable' to 'Positive' on the expectation that the equity shall be infused and raise long term debt from the banks/FIs or raise funds from the market on account of GOI accepting the deferment of spectrum instalments and AGR dues for 4 years by converting the Net Present Value (NPV) of the interest amount into equity of the company, which will provide liquidity in the company to address the existing strain in liquidity due to cashflow mismatch and implement 5G to augment the subscriber base and improve revenue. CARE Ratings shall closely monitor the developments and the outlook may be revised to 'Stable' if there is delay in timely infusion of equity or unable to raise long term debt from banks/FI's.

Key weaknesses

Moderate financial risk profile of the company:

VIL continues to report moderate financial risk profile in FY22 (refers to the period April 2021 to March 2022). The company made losses at profit after tax (PAT) level of Rs.28,245 crore in FY22 as compared to Rs.44,233 crore in FY21 which has further eroded the networth of the company and the total operating income (TOI) of the company further declined to Rs.38,509 crore (FY21: Rs.41,948 crore) on account of the declining subscriber base. As on March 31, 2022, networth of VIL stood at negative Rs.61,965 crore. Further, the independent auditor's report on half-yearly and year to date unaudited consolidated financial results of the company mentions the ability to continue as a going concern is dependent on raising additional funds as required, successful negotiations with lenders and vendors for continued support and generation of cash flow from operations that it needs to settle its liabilities as they fall due.

The company reported a loss of Rs.22,876 crore for 9MFY23 (refers to the period April 01 to December 31) as compared to a loss of Rs.21,692 crore during 9MFY22. The total gross debt (excluding lease liabilities and including interest accrued but not due) stood at Rs.2,22,900 crore, comprising of deferred spectrum payment obligations of Rs.1,39,800 crore (including Rs.17,260 crore towards spectrum acquired in the recent spectrum auction) and adjusted gross revenue (AGR) liability of Rs.69,910 crore that are due to the GoI, and debt from banks and financial institutions of Rs.13,190 crore as on December 31, 2022. While the company has been able to service its debt repayment obligations through internal accruals as well as by delaying vendor payments, long term financing is necessitated in the form of equity infusion or debt, which continues to remain a key rating monitorable.

Judgement by Hon'ble Supreme Court on AGR dues payable by VIL to the Department of Telecommunications (DoT):

Hon'ble Supreme Court in its ruling on September 01,2020 directed telecom companies to pay 10% of total AGR dues by March 31, 2020 and balance amount in annual instalments commencing from April 01, 2021 upto March 31, 2031 payable by March 31 of every succeeding financial year. Further, on July 23, 2021, the Hon'ble Supreme Court dismissed the applications filed by major TSPs, including VIL, raising the issue of alleged errors in the calculation in the figure of AGR related dues payable by them. The company had filed a review petition with the Hon'ble Supreme Court, on August 10, 2021, for considering to hear the modification application on correction of manifest / clerical / arithmetic errors in the computation of AGR demands. As on January 28, 2022, the matter is sub-judice.

Prevalent intense competition in Indian Telecom industry impacting VIL's operational performance

The revenue of VIL decreased in FY22 as compared to FY21, despite tariff hikes undertaken by the industry during December 2019 and November 2021. The same has been on account of a declining subscriber base amidst intense competition in Indian Telecom industry which has kept the ARPU levels low as compared to the telecom industries across the globe. However, after the tariff hike of up to 25%, across the industry, during November 2021, the ARPU for VIL has increased and stood at Rs.135 as on December 31, 2022, as compared to Rs.109 as on September 30, 2021.

As per the company reports, the total subscriber base declined to 228.6 million in Q3FY23 from 234.4 million in Q2FY23, while there was marginal increase in the 4G subscriber base from 120.6 million in Q2FY23 to 121.6 million in Q3FY23. The company is, however, making improvements and adopting dynamic spectrum refarming to maximise the operational efficiency. The PBILDT margins have improved in FY22 as compared to FY21 on account of implementation of cost optimization plans and the increase in tariff.

Key strengths

Established promoter Group:

VIL is a part of the Aditya Birla Group (ABG) and Vodafone Group Plc (VGP). ABG is one of the largest and oldest corporate houses in India with multinational presence. Led by Mr. Kumar Mangalam Birla, ABG 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 22 countries and partners with mobile networks in 47 more, and fixed broadband operations in various markets.

VIL's operations are handled by a team of experienced and professionally qualified personnel headed by Mr. Akshaya Moondra as the Chief Executive Officer. Further, Mr. Ravinder Takkar, the Non-Executive Chairman of the Board of VIL, has over 30 years of experience, which includes 28 years with Vodafone.

Conversion of interest dues by GOI: The Company has availed the one-time opportunity in exercising the 4-year deferment of spectrum auction instalment and AGR dues. In this regard, based on the directive of GOI dated February 3,2023, the company has converted Rs16,133 crore of NPV of the interest amount in to shares, thereby GOI holds 33.44% as on February 7,2023. In view of the above development, it paves way for VIL to explore bank finance and or any other negotiations with creditors, new strategic investors etc. However, the ability of the company to raise equity, additional debt or refinance the existing debt from lenders or markets will be seen critical from credit perspective.

Industry outlook

During September 2021, the GoI announced major reforms for the telecom sector to address the liquidity issue of the TSPs, encourage investment and to promote healthy competition in the industry. The DoT, vide its communication dated October 14, 2021, provided various options to VIL w.r.t the reforms package, including the opportunity to defer the payment of spectrum instalment and AGR and related dues for a period of 4 years and to exercise the option of paying interest for the 4 years of deferment on the deferred obligations by way of conversion into equity. VIL subsequently has opted for the deferment of spectrum auction instalment dues and AGR and related dues for 4 years. Furthermore, VIL has also opted for the conversion of interest related to these deferred obligations into equity and the same has been implemented during February 2023.

Other structural and procedural reforms announced by the GoI have also improved the liquidity position of VIL. As on January 31, 2023, around Rs.17,200 crore bank guarantees (including Rs.14,700 crore spectrum instalment guarantees) have been released by the DoT.

Owing to low ARPU levels of the industry, all TSPs have undertaken tariff hikes of up to 25% post the telecom reforms. The move is expected to improve the cash flows and provide additional liquidity for the capex plans of telcos. It is expected that tariff hike by VIL in its prepaid tariff plans will improve the ARPUs and in turn PBILDT, owing to the fixed-cost nature of the telecom business, wherein, major portion of increased revenues shall directly flow into the PBILDT margin. The tariff hikes by all major telecom operators coupled with consistent upgradation of subscribers from 2G to 4G are expected to the ARPU of the industry. While there is a positive sentiment in the telecom industry post the reforms, the ability of VIL to completely arrest the decline in its subscriber base and increase the same on a sustained basis going forward remains a key credit monitorable.

Liquidity: Poor

VIL had free cash and bank balances of around Rs.154 crore as on December 31, 2022, and the total gross debt (excluding lease liabilities and including interest accrued but not due) stood at Rs.2,22,900 crore as on December 31, 2022.

Despite deferring the spectrum auction instalments & AGR dues which are due to commence from FY26 and raising Rs 1600 crore funds by issuing OCDs from ATC TIPL (ATC TIPL, rated CARE AA-; Stable) to address the ATC vendor payment, the current level of cash generation is insufficient to meet the existing capex and debt servicing obligations, thereby the company continues to resort to delay in capex & O&M creditor payments and utilization of short terms loans, thereby liquidity remains poor.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Mobile Service Provider
Policy on Withdrawal of Ratings

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About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Telecommunication	Telecommunication	Telecom - Services	Telecom - Cellular & Fixed line services

VIL is an ABG and Vodafone Group partnership. Vodafone Group owns 32.29% stake and ABG owns 18.07% stake as on February 15, 2023, in VIL. Department of Investment and Public Asset Management, Government of India holds about 33.14% as on February 15,2023. With pan-India operations, the company is one of the largest telecom operators providing voice, data, enterprise and other value-added services across 22 service areas. As on December 31, 2022, the total subscriber base of the company stood at 228.6 million as reported in Q3FY23 results.

ABG 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 22 countries and, partners with mobile networks in 47 more and fixed broadband operations in various markets.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23(UA)
Total operating income	41,671.00	38,215.30	31,863.00
PBILDT	16,426.80	15,363.20	12,824.00
PAT	-46,293.70	-28,237.20	-22,882
Overall gearing (times)	-1.37	-1.30	-2.50
Interest coverage (times)	0.91	0.73	0.70

A: Audited UA: Un-audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA:
Not Applicable

Any other information:
Not Applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - ST-Term loan		-	-	31-08-2023	2000.00	CARE A4
Debentures-Non-Convertible Debentures	INE669E08318	03-09-2018	10.90%	02-09-2023	1500.00	CARE B+; Positive
Non-fund-based - LT-BG/LC		-	-	-	6222.00	CARE B+; Positive
Term Loan-Long Term		-	-	30-06-2026	9724.00	CARE B+; Positive

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - LT-BG/LC	LT	6222.00	CARE B+; Positive	1)CARE B+; Stable (31-Jan-23)	1)CARE B+; Stable (01-Feb-22) 2)CARE B- (CW with Negative Implications) (13-Aug-21)	1)CARE B+ (CW with Negative Implications) (07-Jan-21) 2)CARE B+ (CW with Negative Implications) (24-Aug-20) 3)CARE BB- (CW with Negative Implications) (28-May-20)	1)CARE BB- (CW with Negative Implications) (17-Feb-20) 2)CARE BBB- (CW with Negative Implications) (22-Nov-19) 3)CARE A- (CW with Negative Implications) (30-Oct-19) 4)CARE A; Negative (08-Aug-19) 5)CARE A+; Negative (10-Jun-19)
2	Term Loan-Long Term	LT	9724.00	CARE B+; Positive	1)CARE B+; Stable (31-Jan-23)	1)CARE B+; Stable (01-Feb-22) 2)CARE B- (CW with Negative Implications) (13-Aug-21)	1)CARE B+ (CW with Negative Implications) (07-Jan-21) 2)CARE B+ (CW with Negative Implications) (24-Aug-20) 3)CARE BB- (CW with Negative Implications) (28-May-20)	1)CARE BB- (CW with Negative Implications) (17-Feb-20) 2)CARE BBB- (CW with Negative Implications) (22-Nov-19) 3)CARE A- (CW with Negative Implications) (30-Oct-19)

								4)CARE A; Negative (08-Aug-19) 5)CARE A+; Negative (10-Jun-19)
3	Fund-based - LT-Bank Overdraft	LT	-	-	-	-	1)Withdrawn (28-May-20)	1)CARE BB- (CW with Negative Implications) (17-Feb-20) 2)CARE BBB- (CW with Negative Implications) (22-Nov-19) 3)CARE A- (CW with Negative Implications) (30-Oct-19) 4)CARE A; Negative (08-Aug-19) 5)CARE A+; Negative (10-Jun-19)
4	Debentures-Non Convertible Debentures	LT	1500.00	CARE B+; Positive	1)CARE B+; Stable (31-Jan-23)	1)CARE B+; Stable (01-Feb-22) 2)CARE B- (CW with Negative Implications) (13-Aug-21)	1)CARE B+ (CW with Negative Implications) (07-Jan-21) 2)CARE B+ (CW with Negative Implications) (24-Aug-20) 3)CARE BB- (CW with Negative Implications) (28-May-20)	1)CARE BB- (CW with Negative Implications) (17-Feb-20) 2)CARE BBB- (CW with Negative Implications) (22-Nov-19) 3)CARE A- (CW with Negative Implications) (30-Oct-19) 4)CARE A; Negative

								(08-Aug-19) 5)CARE A+; Negative (10-Jun-19)
5	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (08-Aug-19) 2)CARE A1+ (10-Jun-19)
6	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (01-Feb-22) 2)CARE B- (CW with Negative Implications) (13-Aug-21)	1)CARE B+ (CW with Negative Implications) (07-Jan-21) 2)CARE B+ (CW with Negative Implications) (24-Aug-20) 3)CARE BB- (CW with Negative Implications) (28-May-20)	1)CARE BB- (CW with Negative Implications) (17-Feb-20) 2)CARE BBB- (CW with Negative Implications) (22-Nov-19) 3)CARE A- (CW with Negative Implications) (30-Oct-19) 4)CARE A; Negative (08-Aug-19) 5)CARE A+; Negative (10-Jun-19)
7	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)Withdrawn (08-Aug-19) 2)CARE A1+ (10-Jun-19)
8	Fund-based - ST-Term loan	ST	-	-	-	-	-	1)Withdrawn (08-Aug-19) 2)CARE A1+ (10-Jun-19)
9	Fund-based - ST-Term loan	ST	-	-	-	-	-	1)Withdrawn (10-Jun-19)
10	Fund-based - ST-Term loan	ST	2000.00	CARE A4	1)CARE A4 (31-Jan-23)	1)CARE A4 (01-Feb-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact	Analytical Contacts
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Name: Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-67543404 E-mail: Saikat.roy@careedge.in	Name: Maulesh Desai Director **CARE Ratings Limited** Phone: +91-79-40265605 E-mail: maulesh.desai@careedge.in Name: Prasanna Krishnan Associate Director **CARE Ratings Limited** Phone: +91-11-45333236 E-mail: prasanna.krishnan@careedge.in Name: Kanav Sharma Lead Analyst **CARE Ratings Limited** E-mail: kanav.sharma@careedge.in

About us:
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