Vodafone Idea Limited

November 01, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	12,203.00	CARE B+; Stable	Reaffirmed
Short-term bank facilities	4,000.00 (Enhanced from 2,000.00)	CARE A4	Reaffirmed
Non-convertible debentures	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed the ratings assigned to the bank facilities of Vodafone Idea Limited (VIL) which factor in the experienced management team, pan-India telecom presence with high brand recognition supported by a stable outlook for the Indian telecommunications industry, stance of the promoter groups [i.e., the Aditya Birla group (ABG) and the Vodafone group Plc (VGP)] in assisting the entity and majority shareholding (33.14% as on June 30, 2023) of the Government of India (GoI) through the Department of Investment and Public Asset Management (DIPAM).

Furthermore, the ratings take cognisance of the receipt of commitment from a promoter group entity confirming direct or indirect financial support to the extent of ₹2,000 crore to address impending obligations of the company arising out of any cash flow mismatches.

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 - both debt and equity, thereby dampening its efforts to gain market share through expansion of 4G services and timely rollout of 5G services.

Furthermore, the ratings take into account the company's exposure to the inherent regulatory risks of the industry and the intensely competitive business environment and takes cognisance of the delay in fund raising from investors and financial institutions against the envisaged timelines. 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 and consequent traction in revenues will be key rating monitorable.

Additionally, CARE Ratings has withdrawn the rating assigned to the NCD issue (INE669E08318) of VIL aggregating Rs.1,500 crore, with immediate effect, as the company has repaid the NCD issue in full and there is no amount outstanding under the issue as on date.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Successful tie-up of debt from banks/FIs and infusion of equity aiding sustainability.

Negative factors

- Significant delay in fund raising plans (including debt and equity infusion) thereby weakening VIL's financial risk profile.
- Significant impact in revenue on account of erosion in subscriber base.

Analytical approach: Consolidated

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

List of subsidiaries and associated entities getting consolidated:

S.No.	Name of the company	% shareholding as on June 30, 2023
1	Vodafone Idea Manpower Services Limited	100.00%
2	Vodafone Idea Business Services Limited	100.00%
3	Vodafone Idea Communication System 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

Outlook: Stable

The 'Stable' outlook reflects the expectation of continuous support from the promoter groups and infusion of funds by way of equity and long-term debt funds, which will provide liquidity support to VIL, implement 5G roll out to augment the subscriber base and improve revenue visibility.

Detailed description of the key rating drivers

Key weaknesses

Weak financial risk profile of the company

VIL's financial risk profile continued to be weak in FY23 (refers to the period April 2022 to March 2023). The total operating income of the company surged by 9.5% from ₹38,509 crore from FY22 to ₹42,160 crore supported by increase in 4G subscriber resulting in change in subscriber mix, increase in tariff plans despite witnessing decline in overall subscriber base by 7% from 243.8 mn as of Q4FY22 to 225.9 mn as of Q4FY23. Yet the company made losses at profit after tax (PAT) level of ₹29,301 crore in FY23 as compared to ₹28,245 crore in FY21 which has further eroded its networth.

The decline in the subscriber base continued through Q1FY24 and VIL incurred losses of ₹7,840 crore at PAT level as against ₹7297 crore for the corresponding period of previous year, while the operating income has been stable at ₹10,655 crore as against ₹10,410 crore for the corresponding quarter. This is largely attributed to change in subscriber mix with migration of more users to 4G.

Furthermore, the independent auditor's report on audited 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 total gross debt (excluding lease liabilities and including interest accrued but not due) stood at ₹2,11,760 crore, comprising deferred spectrum payment obligations of ₹1,33,740 crore (including ₹17,260 crore towards spectrum acquired in the recent spectrum auction) and adjusted gross revenue (AGR) liability of ₹66,860 crore payable to the Government of India (GoI) and debt from banks and financial institutions of ₹9,500 crore followed by Optionally Convertible Debentures (OCD) amounting to ₹1,600 crore as on June 30, 2023.

Delay in fund-raising plan leading to strain in liquidity

VIL had planned raising of funds from the promoters/FIIs and long-term debt from lenders for capex related to the 4G expansion and roll-out of 5G services, in a bid to arrest the declining subscriber base and augment it further, in Q1FY24. However, as there has been delay in raising the aforementioned funds beyond the envisaged timelines, VIL has been unable to implement its plans for revival and has continued focussed capital expenditure (capex) in operationally relevant circles. While the company has started rolling out 5G services, as the 5G live locations for the TSP remain limited as compared to competitors, the ability of the company to raise funds for remaining competitive continues to be the key rating monitorable.

Additionally, VIL has repaid bulky obligations due in Q2FY24 towards 5G spectrum instalment and bank debt through short term loans and deferment of operational creditors. Furthermore, the OCD repayment obligation due in August 2023, aggregating ₹800 crore, has been deferred in agreement with the investor for 18 months. While bulky repayments are expected to be in place for January 2024, commitment from a promoter group entity confirming direct or indirect financial support to the extent of ₹2,000 crore provides comfort.

However, CARE Ratings believes that a long term-financing plan is of immediate requirement to VIL in order to address the existing liquidity strain arising from cashflow mismatches, implement 5G to augment the subscriber base and improve revenues, and thus timely infusion of funds continues to be 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. Furthermore, 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 August 10, 2023, the matter is sub-judice.

Persistent competitive intensity in Indian Telecom industry impacting VIL's operational performance

The ARPU for VIL improved to ₹139 as on June 30, 2023, as compared to ₹128 as on June 30, 2022, the improvement is primarily driven by increase in 4G subscriber base by 4 Mn for the corresponding period resulting in change in subscriber mix and increase in tariff plan. However, VIL is continuously losing its subscriber base to its competitors, which has declined by 7.9% to 221.4 Mn as of Q1FY24 from 240.4 Mn as of Q1FY23. As of March 31, 2023, the subscriber market share of the company stands at 20.7% as per TRAI subscription reports, which has declined from 22.8% as on March 31, 2022. Based on gross revenue, VIL's market share declined from 19.5% to 18.1% for the aforementioned period.

Key strengths

Established promoter group

VIL is a part of ABG and VGP. ABG is one of the largest and oldest corporate houses in India with multinational presence. Led by 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 Akshaya Moondra as the Chief Executive Officer. Furthermore, Ravinder Takkar, the Non-Executive Chairman of the Board of VIL, has over 30 years of experience, which includes 28 years with VIL.

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 ₹16,133 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 is viewed critical from credit perspective.

Industry outlook

The outlook of telecom sector is expected to be stable supported by an increasing rural penetration, growth in broadband subscribers and roll-out of 5G services which will lead to improvement in Average Revenue per Users (ARPU). The government has also taken major reforms to improve the profitability of the telecom operators which will provide the requisite cash flows to support growth.

During September 2021, the GoI announced major reforms for the telecom sector to address the liquidity issue of the telecom service providers (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 opted for the deferment of spectrum auction instalment dues and AGR and related dues for 4 years. It 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 March 31, 2023, around ₹17,200 crore bank guarantees (including ₹14,700 crore spectrum instalment guarantees) have been released by the DoT.

Liquidity: Poor

VIL had free cash & bank balances of ₹250 crore as on June 30, 2023, and the obligations for the balance period of FY24 stands at ₹8,605 crore. Despite the company resorting to minimal capex, deferring O&M creditor payments and utilization of short-term loans, the current level of cash generation is insufficient to meet debt servicing obligations, thereby liquidity remains poor. However, the articulation of the promoter entity's support to the extent of ₹2,000 crore is expected to address any impending obligations of the company arising out of any cash flow mismatches.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks:

VIL has been adopting various solutions/approaches to ensure that its networks are run in an energy efficient manner. The company's primary focus remains on reducing energy costs and minimizing environmental impact of its operations. The company's sustainability journey is complimented with its corporate responsibility agenda which is directed towards addressing some of India's critical social and developmental challenges in both rural and urban communities using the inherent potential and reach of the mobile technology and platform and reducing the environmental impact with increasing preference and usage of digital.

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

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 VGP partnership. VGP owns 32.29% stake and ABG owns 18.07% stake as on June 30, 2023, in VIL. Department of Investment and Public Asset Management, Government of India holds about 33.14% as on June 30, 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.

ABG is one of India's largest conglomerates having its presence across 40 countries. VGP is one of the world's largest telecommunications companies having mobile and fixed network operations in 17 countries and, partners with mobile networks in 46 more and fixed broadband operations in various market.

Brief Financials (Consolidated) (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	38,509	42,160	10,656
PBILDT	15,962	16,735	4,157
PAT	-28,245	-29,301	-7,840
Overall gearing (times)	NM	NM	NM
Interest coverage (times)	NM	NM	NM

A: Audited UA: Unaudited; NM: Not meaningful
Note: The financials have been reclassified as per CARE Ratings' standards
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 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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based – ST – Term loan	-	-	-	31-08-2023	4,000.00	CARE A4
Debentures – Non-Convertible Debentures	INE669E08318	03-09-2018	10.90%	02-09-2023	0.00	Withdrawn
Non-fund-based – LT – BG/LC	-	-	-	-	5,995.00	CARE B+; Stable
Term Loan – Long Term	-	-	-	30-06-2026	6,208.00	CARE B+; Stable

Annexure-2: Rating history for the last three years

SN	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
1	Non-fund-based - LT-BG/LC	LT	5995.00	CARE B+; Stable	1)CARE B+; Stable (24-Aug-23)	1)CARE B+; Positive (16-Mar-23) 2)CARE B+; Stable (31-Jan-23)	1)CARE B+; Stable (01-Feb-22) 2)CARE B- (CWN) (13-Aug-21)	1)CARE B+ (CWN) (07-Jan-21) 2)CARE B+ (CWN) (24-Aug-20) 3)CARE BB- (CWN) (28-May-20)
2	Term Loan-Long Term	LT	6208.00	CARE B+; Stable	1)CARE B+; Stable (24-Aug-23)	1)CARE B+; Positive (16-Mar-23) 2)CARE B+; Stable (31-Jan-23)	1)CARE B+; Stable (01-Feb-22) 2)CARE B- (CWN) (13-Aug-21)	1)CARE B+ (CWN) (07-Jan-21) 2)CARE B+ (CWN) (24-Aug-20) 3)CARE BB- (CWN) (28-May-20)
3	Fund-based - LT-Bank Overdraft	LT	-	-	-	-	-	1)Withdrawn (28-May-20)
4	Debentures-Non Convertible Debentures	LT	-	-	1)CARE B+; Stable (24-Aug-23)	1)CARE B+; Positive (16-Mar-23) 2)CARE B+; Stable (31-Jan-23)	1)CARE B+; Stable (01-Feb-22) 2)CARE B- (CWN) (13-Aug-21)	1)CARE B+ (CWN) (07-Jan-21) 2)CARE B+ (CWN) (24-Aug-20) 3)CARE BB- (CWN) (28-May-20)
5	Debentures-Non Convertible	LT	-	-	-	-	1)Withdrawn (01-Feb-22)	1)CARE B+ (CWN)

SN	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
	Debentures						2)CARE B- (CWN) (13-Aug-21)	(07-Jan-21) 2)CARE B+ (CWN) (24-Aug-20) 3)CARE BB- (CWN) (28-May-20)
6	Fund-based - ST-Term loan	ST	4000.00	CARE A4	1)CARE A4 (24-Aug-23)	1)CARE A4 (16-Mar-23) 2)CARE A4 (31-Jan-23)	1)CARE A4 (01-Feb-22)	-

*LT/ST: Long term/Short term; CWN: Credit watch with negative implications

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

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
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Maulesh Desai Director **CARE Ratings Limited** Phone: +91-79-40265605 E-mail: maulesh.desai@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in	Prasanna Krishnan Lakshmi Kumar Associate Director **CARE Ratings Limited** Phone: +91-11-45333236 E-mail: prasanna.krishnan@careedge.in Monika Analyst **CARE Ratings Limited** E-mail: monika@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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