Vodafone Idea Limited

June 4, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	9,981.00 (Reduced from 12,203.00)	CARE BB+; Stable	Revised from CARE B+; Stable
Short-term bank facilities	1,000.00 (Reduced from 4,000.00)	CARE A4+	Revised from CARE A4

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

For arriving at ratings of Vodafone Idea Limited (VIL), CARE Ratings Limited (CARE Ratings) has considered consolidated financials of VIL and its subsidiaries due to strong business and financial linkages. Revision in rating assigned to long-term and short-term bank facilities of VIL factors in large fund raise through follow-on public offer (FPO) of ₹18,000 crore from institutional and retail investors apart from preferential issuance of ₹2,075 crore to one of the promoters, Aditya Birla Group (ABG). The Indian telecom sector is likely to witness significant tariff hikes in FY25 and FY26, which along with better subscriber mix, is expected to contribute to a substantial improvement in the Average Revenue Per User (ARPU) of all players including VIL. Ratings also take cognisance of experienced management team, pan-India telecom presence with high brand recognition supported by a stable outlook for the Indian telecommunications industry, strong promoter groups [the Aditya Birla group (ABG) and the Vodafone group Plc (VGP)] assisting the entity and substantial shareholding (23.77% as on May 31, 2024) of the Government of India (GoI) through the Department of Investment and Public Asset Management (DIPAM).

To augment its business and regain its market share, VIL plans to make substantial investments in capex over next 3 years ending FY27 in the range of ₹50,000 crore to ₹55,000 crore. The Capex will be towards expanding 4G population coverage in 17 priority circles, 5G launch in key geographies and capacity expansion to address the increasing data demand. As on May 31, 2024, the company continues to engage with lenders for tie-up of bank debt. The business plan aims to restrict churn in the subscriber base, increase overall subscriber base, translating to enhanced revenues and improved profitability in the medium term. Hence, timely tie-up of adequate bank finance and successful implementation of capex to uplift the business risk profile is critical from a credit perspective.

Since its merger in 2018, there has been substantial reduction in VIL's bank debt. As of March 31, 2024, total bank debt and Optionally Convertible Debentures (OCD) stood at ~ ₹4,200 crore, while the GoI obligations towards spectrum and Adjusted Gross Revenue (AGR) liabilities payable over period of time were substantially large at about ₹2.03 lakh crore (excluding interest accrued). Major repayment obligations pertaining to spectrum and AGR liabilities shall commence from FY26. The Company expects continued government support in line with the structural and process reforms and measures towards addressing liquidity requirements of the telecom service providers as set out in telecom reform package announced on September 15, 2021. Hence, timely GoI support is viewed as a key credit monitorable.

However, rating strengths remain underpinned by VIL's deteriorated financial and business risk profile, where, tangible net worth has eroded, significant exposure to operational creditors, and modest revenue growth of 1.1% in FY24 due to constantly declining subscriber base with delay in raising funds against envisaged timelines. The company's exposure to inherent regulatory and technological risks of the industry apart from intensely competitive business environment are other credit weaknesses.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving revenue and profitability per envisaged base case business plan.
- Meaningful progress in tie-up of funds including bank debt, improving business and financial risk.
- Timely support from GoI as set out in telecom reform package announced in September 15, 2021.

Negative factors

- Significantly delaying fund raising plans, weakening VIL's liquidity profile.
- Lack of timely support from GoI towards its obligations.

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

Analytical approach: Consolidated
CARE Ratings has considered a consolidated approach to analyse VIL due to common management, shared brand name and operational linkages between the company, its subsidiaries and joint venture. The list of entities consolidated with VIL per its audited results has been placed in Annexure-6

Outlook: Stable
The 'Stable' outlook reflects expectation of timely tie-up of long-term debt funds and equity raised from market and promoters, to provide support in strengthening VIL's 4G network and 5G roll out to augment its subscriber base, resulting in improving revenue visibility and boosting operating profitability.

Detailed description of key rating drivers:

Key weaknesses

Persistent competitive intensity in Indian Telecom industry impacting VIL's operational performance
VIL's ARPU improved to ₹146 as on March 31, 2024, as compared to ₹135 as on March 31, 2023. This is primarily driven by increase in 4G subscriber base by 3.7 million for the corresponding period increase in ARPU due to improving subscriber mix, 4G subscriber additions and change in entry level tariff plan. However, VIL is continuously losing its subscriber base to competitors, which has declined by 6% to 225.9 million as of Q4FY23 to 212.6 million as of Q4FY24. As of March 31, 2024, the subscriber market share of the company stands at 18.9% per TRAI subscription reports, which has declined from 20.7% as on March 31, 2023.

The Indian telecom sector is poised for significant tariff hikes in FY25 and FY26, which along with better subscriber mix, is expected to contribute to a substantial improvement in ARPU for all telecom players including VIL. Hence, increase in ARPU as envisaged will be a key credit monitorable.

Weak financial risk profile marked by low profitability
VIL's financial risk profile continued to be weak in FY24 (refers to April 2023 to March 2024). The company's total operating income (TOI) remained stable, as it grew moderately by 1.1% from ₹42,177 crore from FY23 to ₹42,652 crore in FY24 supported by increase in ARPU due to improving subscriber mix, marginal increase in entry level tariff plans despite witnessing decline in overall subscriber base by 6% from 225.9 million as of Q4FY23 to 212.6 million as of Q4FY24. However, the company made losses at profit after tax (PAT) level of ₹31,238 crore in FY24 as compared to ₹29,301 crore in FY23, which further eroded its net worth.
The payment obligations to the government stood at ₹ 2.03 lakhs crore, comprising deferred spectrum payment obligations of ₹1.33 lakhs crore and adjusted gross revenue (AGR) liability of ₹70,000 crore. The debt from banks and financial institutions stood at ₹4,041 crore followed by Optionally Convertible Debentures amounting to Rs 160 Crore as on March 31, 2024.
The company's total debt to profit before interest, lease rentals, depreciation, and taxation (TD/PBILDT) stood at 14.13x and 14.24x in FY23 and FY24 respectively. The ratio is significantly higher as compared to competitors. However, estimated ramp up in revenues, following planned capex augmenting subscriber base and ARPU increase, the company is expecting the TD/PBILDT to improve going forward.

Large capex outlay pending debt fund tie-up
During the past 3-4 years, VIL has been unable to implement its plans for capital expenditures (capex) leading to continuous decrease in subscriber base of the company. VIL had been consistently striving for fundraise in the form of equity and long-term debt from lenders for capex-related investments. These investments pertaining to the 4G expansion and roll-out of 5G services are crucial to arrest the declining subscriber base and augment it thereafter.

The company has recently re-commenced its fundraising activities. In April 2024, it successfully garnered ₹18,000 crore through FPO, and in May 2024, it secured an additional ₹2,075 crore from its promoters, by issuing equity. The company proposes to raise ₹25,000 crore through fund based and ₹10,000 crore through non fund-based facilities.

CARE Ratings believes that meaningful progress in tie-up of balance debt funds to implement the planned capex to augment the subscriber base and improve revenues, and views it as a key rating monitorable.

Judgement by Hon'ble Supreme Court on AGR dues payable by VIL to 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, till March 31, 2031, payable by March 31 of every succeeding financial year, for which, a moratorium of four years was provided. 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 calculation in the figure of AGR related dues payable. The company had filed a review petition with the Hon'ble Supreme Court, on August 10, 2021, requesting a reconsideration to hear the modification application on correction of manifest / clerical / arithmetic errors in computing AGR demands. As on May 31, 2024, the matter is sub-judice. The Company has also filed a curative petition in respect to this matter.

Key strengths

Successful raising of equity funds from market and promoter
VIL successfully raised ₹18,000 crore from capital markets through Follow-on Public Offer (FPO) in April 2024, which was subscribed by ~7x showing a healthy interest by Institutional investors. In May 2024, the promoter, ABG infused equity funds of ₹2075 crore, taking the total quantum to ₹20,075 crore in two months. The fund raising will aid in implementing its business plan in strengthening 4G coverage, capacity additions and rollout of 5G. The successful implementation aims to increase its subscriber base, resulting in enhanced revenue and profitability.

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 40 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 15 countries and partners with mobile networks in 43 more, and fixed broadband operations across markets.

VIL's operations are handled by a team of experienced and professionally qualified personnel headed by Akshaya Moondra, the Chief Executive Officer. Ravinder Takkar, the Non-Executive Chairman of the Board of VIL, has over 30 years of sector experience.

Support from GoI
The company earlier availed a one-time opportunity in exercising the 4-year deferment of spectrum auction instalment and AGR dues. Based on the directive of GoI dated February 03, 2023, the company converted ₹16,133 crore of NPV of the interest amount in to shares, thereby GoI holds 23.77% as on May 31,2024. Per the telecom reforms dated September 2021, GoI has option to convert dues pertaining to this deferment through equity at the end of moratorium period, of which company expects conversion in FY26 and FY27 respectively. Hence, the support of GOI in expected conversion of dues as equity or further deferment of such dues, remains a key credit monitorable.

Industry outlook: Stable
The outlook of Indian 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 ARPU. The government has also taken major reforms to address structural , process reforms and liquidity issues of the telecom industry, which will provide requisite cashflows to support growth.

In September 2021, the GoI announced major reforms for the telecom sector to address liquidity of telecom service providers (TSPs), encourage investment and promote healthy competition in the industry. The DoT, vide its communication dated October 14, 2021, provided options to VIL regarding reforms package, including the opportunity to defer payment of spectrum instalment and AGR and related dues for four years and to exercise the option of paying interest for four years of deferment on deferred obligations by conversion into equity. VIL subsequently opted for deferment of spectrum auction instalment dues and AGR and related dues for four years. It also opted for conversion of interest related to these deferred obligations as equity, which has been implemented in February 2023.

Other structural and procedural reforms announced by the GoI related to no requirement of bank guarantees for spectrum bidding has also improved liquidity position of telco companies.

Liquidity: Stretched
VIL has a free cash and bank balance of around ₹168 crore as of March 31, 2024. The debt repayment obligations including obligations to GOI for FY25 stands at ₹4,428 crore. The current level of cash generation is expected to be sufficient to meet FY25 obligations. However, going forward, with expected increase in repayment obligations, liquidity is expected to remain stretched, without timely support from GoI and favourable terms of capex creditors payments.

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Consolidation](#)
[Definition of Default](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Mobile Service Provider](#)
[Financial Ratios – Non financial Sector](#)
[Short Term Instruments](#)

About the company and industry

VIL is an ABG and VGP partnership, where VGP owns 23.16% stake and ABG owns 15.01% stake as on May 31, 2024. Department of Investment and Public Asset Management, GoI holds about 23.77% as on May 31, 2024. 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 15 countries and, partners with mobile networks in 43 more and fixed broadband operations across markets.

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Telecommunication	Telecommunication	Telecom - services	Telecom - cellular & fixed line services

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income*	42,177	42,652
PBILDT*	16,817	17,126
PAT	-29,301	-31,238
Overall gearing (times)	NM	NM
Interest coverage (times)	0.72	0.66

A: Audited, Note: these are latest available financial results NM- Non meaningful *Excluding non-operating income

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: Please refer Annexure-4

Lender details: Please refer 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		-	-	30-04-2025	1000.00	CARE A4+
Non-fund-based - LT-BG/LC		-	-	-	5943.00	CARE BB+; Stable
Term Loan-Long Term		-	-	30-06-2026	4038.00	CARE BB+; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Non-fund-based - LT-BG/LC	LT	5943.00	CARE BB+; Stable	-	1)CARE B+; Stable (01-Nov-23) 2)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- (CW with Negative Implications) (13-Aug-21)
2	Term Loan-Long Term	LT	4038.00	CARE BB+; Stable	-	1)CARE B+; Stable (01-Nov-23) 2)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- (CW with Negative Implications) (13-Aug-21)
3	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (01-Nov-23) 2)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- (CW with Negative Implications) (13-Aug-21)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
4	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (01-Feb-22) 2)CARE B- (CW with Negative Implications) (13-Aug-21)
5	Fund-based - ST-Term loan	ST	1000.00	CARE A4+	-	1)CARE A4 (01-Nov-23) 2)CARE A4 (24-Aug-23)	1)CARE A4 (16-Mar-23) 2)CARE A4 (31-Jan-23)	1)CARE A4 (01-Feb-22)

LT: Long term; ST: Short term;

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

Annexure-4: Complexity level of various instruments rated

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

Annexure-5: Lender details

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

Annexure-6: List of all entities consolidated

S. No.	Name of the company	Extent of consolidation	Rationale for consolidation
1	Vodafone Idea Manpower Services Limited	Full	Subsidiary
2	Vodafone Idea Business Services Limited	Full	Subsidiary
3	Vodafone Idea Communication Systems Limited	Full	Subsidiary
4	Vodafone Idea Shared Services Limited	Full	Subsidiary
5	You Broadband India Limited	Full	Subsidiary
6	Vodafone Foundation	Full	Subsidiary
7	Vodafone Idea Telecom Infrastructure Limited	Full	Subsidiary
8	Vodafone Idea Technology Solutions Limited	Full	Subsidiary
9	Vodafone M-Pesa Limited	Full	Subsidiary
10	Firefly Networks Limited	Partial	Joint Venture

Note on complexity levels of 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.

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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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