

## Vodafone Idea Limited

December 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	9,968.42 (Reduced from 9,981.00)	CARE BB+; Stable	Reaffirmed
Short-term bank facilities	1,001.00 (Enhanced from 1,000.00)	CARE A4+	Reaffirmed

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. Reaffirmation of ratings assigned to long-term and short-term bank facilities of VIL factors in 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 (23.15% as on September 30, 2024) of the Government of India (GoI) through the Department of Investment and Public Asset Management (DIPAM). Ratings also take cognisance of large fund raise through follow-on public offer (FPO) of ₹18,000 crore from institutional and retail investors apart from conversion of optionally convertible debentures (OCD) in to equity of ₹1,600 crore, preferential issue to Nokia and Ericsson of ₹2,458 crore, preferential issuance of ₹2,075 to ABG Group in July 2024 and proposed infusion of ₹1,980 crore by VGP in January 2025, and improvement in average revenue per user (ARPU) from ₹146 in Q4FY24 to ₹156 in Q2FY25 due to tariff hike undertaken by VIL across mobile plans in July 2024. The Indian telecom sector is likely to witness another tariff hike in FY26, which with better subscriber mix, is expected to contribute to a substantial improvement in the ARPU of all players including VIL. To augment its business and regain its market share, VIL plans to make substantial investments in capex in the next three years ending FY27 in the range of ₹50,000 crore to ₹55,000 crore. Capex will be towards expanding 4G population coverage in 17 priority circles, 5G launch in key geographies and capacity expansion to address increasing data demand. As on December 17, 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 September 30, 2024, total bank debt stood at ~₹3,246 crore, while the GoI obligations towards spectrum and Adjusted Gross Revenue (AGR) liabilities payable over period of time were substantially large at ~₹2.12 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 on September 15, 2021.

#### Negative factors

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

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited'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. Entities consolidated with VIL per its audited results is listed under 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, 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. VIL's ARPU improved to ₹156 in Q2FY25 due to tariff hike undertaken by VIL across mobile plans. However, VIL is continuously losing its subscriber base to competitors, which has declined by 3.6% from 212.6 million as of Q4FY24 to 205 million as of Q2FY25. As of September 30, 2024, the subscriber market share of the company stands at 18.4% per TRAI reports, which declined from 18.9% as on March 31, 2024.

The Indian telecom sector is poised for yet another tariff hike in FY26, which 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 and H1FY25. The company's total operating income (TOI) remained stable, as it grew moderately by 1.1% from ₹42,177 crore in 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 decline in overall subscriber base by 6% from 225.9 million as of Q4FY23 to 212.6 million as of Q4FY24. The company made losses at profit after tax (PAT) level of ₹31,238 crore in FY24 compared to ₹29,301 crore in FY23, which further eroded its net worth.

However, with tariff hike in July 2024, TOI grew by 4% on q-o-q level from ₹10,508 crore in Q1FY25 to ₹10,932 crore in Q2FY25, which also led to improvement in the profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin to 41.62% in Q2FY25 from 40.15% in FY24. The PAT loss for H1FY25 stood at ₹13,608 crore.

Payment obligations to the government stood at ₹2.12 lakhs crore as on September 30, 2024, comprising deferred spectrum payment obligations and adjusted gross revenue (AGR) liability. Debt from banks and financial institutions stood at ₹3,246 crore as on September 30, 2024.

The company's total debt to PBILDT (TD/PBILDT) stood at 14.24x and 14.29x in FY24 and H1FY25, respectively. The ratio is significantly higher 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**

In the last 3-4 years, VIL has been unable to implement its plans for capital expenditures (capex) leading to continuous decrease in subscriber base. 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 declining subscriber base and augment it thereafter.

The company has recently recommenced its fundraising activities. In April 2024, it successfully garnered ₹18,000 crore through FPO, apart from conversion of OCD into equity of ₹1,600 crore, preferential issue to Nokia and Ericsson of ₹2,458 crore, preferential issuance of ₹2,075 to ABG Group in July 2024 and proposed infusion of ₹1,980 crore by VGP in January 2025. 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 is crucial 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 applications filed by major TSPs, including VIL, raising the issue of alleged errors in calculation in 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. The company has also filed a curative petition in respect to this matter. On August 30, 2024, the Hon'ble Supreme Court has rejected the curative petition.

### **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, ABG infused ₹2,075 crore in equity funds, apart from conversion of OCD in to equity of ₹1,600 crore, preferential issue to Nokia and Ericsson of ₹2,458 crore, and proposed infusion of ₹1,980 crore by VGP in January 2025, taking the total quantum to ₹26,113 crore. The fund raising will aid in implementing its business plan in strengthening 4G coverage, capacity additions and rollout of 5G. Successful implementation aims to increase its subscriber base, resulting in enhanced revenue and profitability.

#### **Established promoter group**

VIL is 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 GoI directive dated February 03, 2023, the company converted ₹16,133 crore of NPV of interest amount to shares, GoI holds 23.15% as on September 30, 2024. Per the telecom reforms dated September 2021, GoI has the option to convert dues pertaining to this deferment through equity at the end of moratorium period, of which, the 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, 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 ~₹779 crore as of September 30, 2024 (excluding the FPO proceeds). Debt repayment obligations for H2FY25 stands at ₹920 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.

#### **Assumptions/Covenants: Not applicable**

**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

#### Industry classification

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

VIL is an ABG and VGP partnership, where VGP owns 22.56% stake and ABG owns 14.76% stake as on September 30, 2024. Department of Investment and Public Asset Management, GoI holds ~23.15% as on September 30, 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.

Brief Financials (₹ crore) - Consolidated	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income*	42,177	42,652	21,441
PBILDT*	16,817	17,126	8,754
PAT	-29,308	-31,238	-13,608
Overall gearing (times)	NM	NM	NM
Interest coverage (times)	0.72	0.66	0.72

A: Audited, UA: Unaudited; NM- Non meaningful; Note: these are latest available financial results

\*Excluding non-operating income

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

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

**Complexity level of 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 and Rating Outlook
Fund-based - ST-Term loan		-	-	30-04-2025	1001.00	CARE A4+
Non-fund-based - LT-BG/LC		-	-	-	6067.22	CARE BB+; Stable
Term Loan-Long Term		-	-	30-06-2026	3901.20	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	6067.22	CARE BB+; Stable	1)CARE BB+; Stable (04-Jun-24)	1)CARE B+; Stable (01-Nov-23) 2)CARE B+; Stable (24-Aug-23)	1)CARE B+; Positive (01-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	3901.20	CARE BB+; Stable	1)CARE BB+; Stable (04-Jun-24)	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)
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	1001.00	CARE A4+	1)CARE A4+ (04-Jun-24)	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 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 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	Proportionate	Joint Venture

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

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### About us:

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### Disclaimer:

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