

## Vodafone Idea Limited

January 31, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	15,946.00	CARE B+; Stable	Reaffirmed
Short Term Bank Facilities	2,000.00	CARE A4	Reaffirmed
Non-Convertible Debentures	1,500.00	CARE B+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Note: CARE Ratings Limited (CARE Ratings) has withdrawn the rating assigned to the NCD issues of VIL, to the tune of Rs.3,000 crore, with immediate effect, as the company has repaid the NCD issue in full and there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. Details of the instruments repaid by VIL in full are mentioned below:

Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)
NCD	INE669E08284	January 27, 2017	8.04%	January 27, 2022	2,000.00
NCD	INE669E08292	January 31, 2017	8.03%	January 31, 2022	500.00
NCD	INE669E08300	February 14, 2017	8.03%	February 14, 2022	500.00

### Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities and instruments of Vodafone Idea Limited (VIL) take into account 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 and the approval from the Board of Directors (BoD) of VIL for the issuance of Rs.1,600 crore optionally convertible debentures (OCDs) to ATC Telecom Infrastructure Private Limited (ATC TIPL, rated CARE AA-; Stable), the funds from which will be utilised to pay amounts owed by VIL to ATC TIPL and any remainder, for general corporate purposes of the company.

The ratings, however, remain underpinned on account of the company's deteriorated financial risk profile, wherein, the tangible net-worth has eroded, its constantly declining subscriber base and inability to raise 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. The ratings also take cognisance of the delay of conversion of interest arising from the deferment of Department of Telecommunications (DoT) obligations into equity by the Government of India (GoI). Going forward, the ability of the company to raise funds to support its operations and undertake capex remains a key rating monitorable.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Improvement of overall 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%

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

S.No.	Name of the company	% shareholding as on September 30, 2022
9	Connect India Mobile Technologies Private Limited	100.00%
10	Vodafone M-Pesa Limited	100.00%
11	Firefly Networks Limited^	50.00%
12	Aditya Birla Idea Payments Bank Limited*	49.00%

^ Joint Venture; \* Associates

## Key weaknesses

### Moderate financial risk profile of the company

VIL continues to report moderate financial risk profile in FY22 (refers to the period April 2020 to March 2021). 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 quarterly and year to date unaudited consolidated financial results of the company mentions material uncertainty on going concern of the company.

The company reported a loss of Rs.14,892 crore for H1FY23 (refers to the period April 01 to September 30) as compared to a loss of Rs.14,451 crore during H1FY22. The total gross debt (excluding lease liabilities and including interest accrued but not due) stood at Rs.2,20,320 crore, comprising of deferred spectrum payment obligations of Rs.1,36,650 crore (including Rs.17,260 crore towards spectrum acquired in the recent spectrum auction) and adjusted gross revenue (AGR) liability of Rs.68,590 crore that are due to the GoI, and debt from banks and financial institutions of Rs.15,080 crore as on September 30, 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 subjudice. Nevertheless, the company has opted for moratorium on these dues and equity conversion on the interest component against the deferred liabilities.

### 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.131 as on September 30, 2022, as compared to Rs.109 as on September 30, 2021.

As per the company reports, the total subscriber base declined to 234.4 million in Q2FY23 from 253.0 million in Q2FY22, while there was increase in the 4G subscriber base from 116.2 million in Q2FY22 to 120.6 million in Q2FY23. Further, there was increase in subscriber churn from 2.9% in Q2FY22 to 4.3% in Q2FY23. 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 groups

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 year with Vodafone.

### 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. The equity shares will be issued to the GoI at a par value of Rs.10 per share, subject to final confirmation by the DoT. The conversion will result in dilution of existing promoters' stake, following which the GoI is expected to hold around 33% stake in the company.

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.828 crore as on September 30, 2022, and the total gross debt (excluding lease liabilities and including interest accrued but not due) stood at Rs.2,20,320 crore as on September 30, 2022. Going forward the adequacy of available funds to meet debt obligations remains to be seen.

### 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

VIL is an ABG and Vodafone Group partnership. Vodafone Group owns 47.61% stake and ABG owns 27.38% stake as on September 30, 2022, in VIL. 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 November 30, 2022, the total subscriber base of the company stood at 244.53 million including a wireless subscriber base of 243.80 million, as reported by TRAI.

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 (Consolidated) (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	41,947.60	38,508.50	21,024.70
PBILDT	16,941.70	15,961.70	8,425.90
PAT	-44,233.10	-28,245.40	-14,892.20
Overall gearing (times)	-1.36	-1.29	NM
Interest coverage (times)	0.94	0.76	0.70

A: Audited; UA: Unaudited; NM: Not Meaningful

Note: Financials have been reclassified as per CARE Ratings' 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

**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	2,000.00	CARE A4
Term Loan-Long Term	-	-	-	30-06-2026	9724.00	CARE B+; Stable
Non-fund-based - LT-BG/LC	-	-	-	-	6222.00	CARE B+; Stable
Debentures-Non-Convertible Debentures	INE669E08318	03-09-2018	10.90%	02-09-2023	1,500.00	CARE B+; Stable

**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+; Stable	-	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+; Stable	-	1)CARE B+; Stable (01-Feb-22) 2)CARE B- (CW with Negative Implications)	1)CARE B+ (CW with Negative Implications) (07-Jan-21) 2)CARE B+ (CW with Negative Implications)	1)CARE BB- (CW with Negative Implications) (17-Feb-20) 2)CARE BBB- (CW with Negative Implications)

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
						(13-Aug-21)	Negative Implications) (24-Aug-20)	Negative Implications) (22-Nov-19)
							3)CARE BB-(CW with Negative Implications) (28-May-20)	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+; Stable	-	1)CARE B+; Stable (01-Feb-22)	1)CARE B+ (CW with Negative Implications) (07-Jan-21)	1)CARE BB-(CW with Negative Implications) (17-Feb-20)
						2)CARE B-(CW with Negative	2)CARE B+	2)CARE BBB-

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
						Implications) (13-Aug-21)	(CW with Negative Implications) (24-Aug-20)  3)CARE BB- (CW with Negative Implications) (28-May-20)	(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)

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
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 (01-Feb-22)	-	-

\*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
<b>A. Financial covenants</b>	NA
<b>B. Non-financial covenants</b>	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.

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