

Vodafone Idea Limited

August 24, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Fund based Bank Facilities	13,745.25	CARE B+; Credit watch with Negative Implications [Single B Plus; Credit watch with Negative Implications]	Revised from CARE BB-; Credit watch with Negative Implications [Double B Minus; Credit watch with Negative Implications]
Non- Fund based Bank Facilities	23,925.00	CARE B+; Credit watch with Negative Implications [Single B Plus; Credit watch with Negative Implications]	Revised from CARE BB-; Credit watch with Negative Implications [Double B Minus; Credit watch with Negative Implications]
Total	37,670.25 (Rupees Thirty seven thousand six hundred seventy crore and twenty five lakhs only)		
Non-Convertible Debenture (NCD) issues	7,500.00 (Rupees seven thousand five hundred crore only)	CARE B+; Credit watch with Negative Implications [Single B Plus; Credit watch with Negative Implications]	Revised from CARE BB-; Credit watch with Negative Implications [Double B Minus; Credit watch with Negative Implications]

CARE continues to place long-term ratings of Vodafone Idea Limited (VIL) on credit watch with Negative Implications on account of uncertainty related to outcome of Hon'ble Supreme Court (SC) ruling on Adjusted Gross Revenue (AGR) dues payable by VIL to Department of telecom (DoT).

CARE continues to monitor the developments pertaining to outcome of SC judgement and will take appropriate rating action based on the outcome of the same.

Detailed Rationale & Key Rating Drivers

The revision in long-term rating assigned to bank facilities and instruments of VIL is on account of significant deterioration of financial risk profile of the company in Q1FY21 (refers to period April 01, to June 30,). The company reported negative networth in Q1FY21 due to adjustment of exceptional item related to AGR dues. As a result solvency profile of the company is subdued. Going forward the ability of the company to raise fund to support its operation remains key rating monitorable.

The rating continues to be constrained by prevalent intense competition in Indian Telecom industry impacting VIL's operational performance.

However, the rating continues to derive strength from established promoter groups.

Rating Sensitivities

Positive rating sensitivities

- Timely extension of financial support to VIL resulting in improvement of overall of financial risk profile of the company on sustained manner.

Negative rating sensitivities

- Any adverse outcome of SC order impacting the operational performance of VIL
- Any moderation of VIL's debt coverage indicators.

Detailed description of the key rating drivers

Key Rating Weaknesses

Significant deterioration in financial risk profile of the company in Q1FY21

As per Q1FY21 financials the quarterly loss of the company increased to Rs. 25,460 crore as compared to Rs. 11,643.50 crore in Q4FY20 by over 100% on q-o-q basis and over 400% y-o-y basis. The increase in loss was on account of provisioning of AGR dues of Rs. 19,923.20 crore (incl. interest and penalty) and continual operating loss due to lower Average Revenue per User (ARPU) levels. The decline in ARPU in Q1FY21 was mainly on account of deferment/lower recharge of tariff plan by customers

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

amidst COVID-19 pandemic. In addition to it the company provided validity extension and free recharge talk time to few customers nearly 100 million customers.

Consequently, to the substantial increase in loss in Q1FY21 the networth of the company eroded from Rs. 5,979.90 crore as on March 31, 2020. 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. Gross debt (excluding lease liabilities) as of June 30, 2020 was Rs. 1,18,940 crore, including deferred spectrum payment obligations due to the Government of Rs. 92,270 crore.

Continual uncertainty related to outcome of Hon'ble Supreme Court ruling on AGR dues payable by VIL to DoT

Hon'ble Supreme Court in its ruling July 20, 2020 cleared that any self-assessment and re-calculation of AGR due by Telecom Service Providers would not be permitted. The AGR dues for VIL aggregated to Rs.58,250 crore upto FY2016-17 on basis of preliminary assessment by DoT. VIL has already paid Rs. 7,854 crore towards AGR due to DoT as on date. The company has pleaded for staggered payment of balance dues to DoT. The judgement is yet to be pronounced by the court. As a result there is continual uncertainty related to outcome and likely impact on business operations of VIL.

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

Revenue of the company dipped in Q1FY21 as compared to Q4FY20 despite increase in tariff in December, 2019 due to prevalent intense competition in Indian Telecom industry leading to lower ARPU levels. ARPU for Q1FY21 was Rs. 114 as compared to Rs. 121 in Q4FY20.

Consequently, PBILDT levels of the dipped in Q1FY21 as compared to Q4FY20. Interest coverage ratio of the company continues to be low on account of lower PBILDT levels.

Gross additions were impacted with subscriber base decline to 279.8 million in Q1FY21 from 291.1 million in Q4FY20. However, subscriber churn reduced to 2.0% in Q1FY21 (3.3% in Q4FY20), as net disconnections were lower during the quarter. VIL has initiated cost optimization plan with which the management of the company envisages to have annualized opex savings of around Rs. 4000 crore over a period of 18 months.

Key Rating Strengths

Established promoter groups

VIL is a part of Aditya Birla Group (ABG) and Vodafone Group Plc (VGP). Aditya Birla Group is one of the largest and oldest corporate houses in India with multinational presence. ABG led by Mr. Kumar Mangalam Birla 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 operations in 24 countries, partners with mobile networks in 42 more, and fixed broadband operations in 19 markets.

VIL's operations are handled by team of experienced and professionally qualified personnel headed by Mr. Ravinder Takkar as Managing Director and Chief Executive Officer.

Liquidity analysis:

Liquidity- Poor

Cash and cash equivalent (excluding margin deposits) as on June 30, 2020 stood at Rs. 3,450 crore as June 30, 2020. The company repaid debt amounting Rs. 2,875 crore as on July 10, 2020. The debt servicing obligation for period August 01, 2020 to March 31, 2021 is around Rs. 3,000 crore. Going forward the adequacy of available funds to meet debt obligations remains to be seen. With negative networth of the company as on June 30, 2020 there is very limited headroom for the company to incur any capital expenditure and raise funds to support operation of the company. In order to improve liquidity position of VIL the expected monetization of stake sale in Indus Towers Limited is delayed due to extension of long stop date to August 31, 2020. VIL continues to avail moratorium on principal and interest payment on term borrowings from Banks.

Analytical approach: Consolidated

Applicable Criteria

[CARE's Policy on Default Recognition](#)

[Criteria on assigning Outlook and credit watch to Credit Ratings](#)

[Rating methodology- Consolidation and Factoring Linkages in ratings](#)

[Rating Methodology - Infrastructure Sector](#)

[Financial ratios - Non-Financial sector](#)

About the Company

Vodafone Idea Limited is an Aditya Birla Group (ABG) and Vodafone Group partnership. Vodafone Group owns 44.39% stake and ABG owns 27.66% stake as on March 31, 2020 in VIL.

With pan-India operation, the company is one of the largest telecom operator providing voice, data, enterprise and other value added services across 22 service areas. As on June 30, 2020 subscriber base of the company stood at 279.80 mn with 4G subscriber base of 104.60 million.

Aditya Birla Group is India's one of the largest conglomerate having its presence across 35 countries. Vodafone Group is one of the world's largest telecommunications companies having mobile operations across 24 countries, partners with mobile networks in more than 42 markets, and fixed broadband operations in around 19 markets.

Brief Financials (Rs. crore) ^{&} (Consolidated)	FY19 (Audited) [§]	FY20 (Abridged)
Total operating income	37,311	45,997
PBILDT	4,335	15,952
PAT	-14,604	-73,878
Overall Gearing	2.11	19.23
Interest Coverage	0.45	1.04

[§]Financials of Vodafone group for FY19 have been considered from the effective date of merger i.e. August 31, 2018

[&]Financials are reclassified as per CARE 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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN no	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT-Bank Guarantees/Letter of Credit	-	-	-	-	23925.00	CARE B+ (Under Credit watch with Negative Implications)
Term Loan-Long Term	-	-	-	June 30, 2026	13745.25	CARE B+ (Under Credit watch with Negative Implications)
Fund-based - LT-Bank Overdraft	-	-	-	-	0.00	CARE B+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	INE669E08250	December 13, 2016	7.57%	December 13, 2021	1,500.00	CARE B+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	INE669E08268	January 04, 2017	7.77%	January 04, 2022	1,000.00	CARE B+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	INE669E08276	January 17, 2017	7.77%	January 17, 2022	500.00	CARE B+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	INE669E08284	January 27, 2017	8.04%	January 27, 2022	2,000.00	CARE B+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	INE669E08292	January 31, 2017	8.03%	January 31, 2022	500.00	CARE B+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	INE669E08300	February 14, 2017	8.03%	February 14, 2022	500.00	CARE B+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	INE669E08318	September 03, 2018	10.90%	September 02, 2023	1,500.00	CARE B+ (Under Credit watch with Negative Implications)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings		Rating history				
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - LT-BG/LC	LT	23925.00	CARE B+ (Under Credit watch with Negative Implications)	1)CARE BB- (Under Credit watch with Negative Implications) (28-May-20)	1)CARE BB- (Under Credit watch with Negative Implications) (17-Feb-20) 2)CARE BBB- (Under Credit watch with Negative Implications) (22-Nov-19) 3)CARE A- (Under Credit watch with Negative Implications) (30-Oct-19) 4)CARE A; Negative (08-Aug-19) 5)CARE A+; Negative (10-Jun-19)	1)CARE AA-; Negative (21-Feb-19) 2)CARE AA-; Negative (15-Feb-19) 3)CARE AA; Negative (26-Nov-18) 4)CARE AA; Negative (13-Nov-18) 5)CARE AA; Negative (26-Sep-18) 6)CARE AA; Negative (11-Sep-18) 7)CARE AA (Under Credit watch with Developing Implications) (03-Jul-18) 8)CARE AA (Under Credit watch with Developing Implications) (08-Jun-18)	1)CARE AA+ (Under Credit watch with Developing Implications) (14-Dec-17) 2)CARE AA+ (Under Credit watch with Developing Implications) (10-Nov-17)
2.	Term Loan-Long Term	LT	13745.25	CARE B+ (Under Credit watch with Negative Implications)	1)CARE BB- (Under Credit watch with Negative Implications) (28-May-20)	1)CARE BB- (Under Credit watch with Negative Implications) (17-Feb-20) 2)CARE BBB- (Under Credit watch with Negative Implications) (22-Nov-19) 3)CARE A- (Under Credit watch with Negative Implications) (30-Oct-19) 4)CARE A; Negative (08-Aug-19)	1)CARE AA-; Negative (21-Feb-19) 2)CARE AA-; Negative (15-Feb-19) 3)CARE AA; Negative (26-Nov-18) 4)CARE AA; Negative (13-Nov-18) 5)CARE AA; Negative (26-Sep-18) 6)CARE AA; Negative (11-Sep-18) 7)CARE AA (Under Credit watch with	1)CARE AA+ (Under Credit watch with Developing Implications) (14-Dec-17) 2)CARE AA+ (Under Credit watch with Developing Implications) (10-Nov-17)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
						5)CARE A+; Negative (10-Jun-19)	Developing Implications) (03-Jul-18) 8)CARE AA (Under Credit watch with Developing Implications) (08-Jun-18)	
3.	Fund-based - LT-Bank Overdraft	LT	-	-	1)Withdrawn (28-May-20)	1)CARE BB- (Under Credit watch with Negative Implications) (17-Feb-20) 2)CARE BBB- (Under Credit watch with Negative Implications) (22-Nov-19) 3)CARE A- (Under Credit watch with Negative Implications) (30-Oct-19) 4)CARE A; Negative (08-Aug-19) 5)CARE A+; Negative (10-Jun-19)	1)CARE AA-; Negative (21-Feb-19) 2)CARE AA-; Negative (15-Feb-19) 3)CARE AA; Negative (26-Nov-18) 4)CARE AA; Negative (13-Nov-18) 5)CARE AA; Negative (26-Sep-18) 6)CARE AA; Negative (11-Sep-18) 7)CARE AA (Under Credit watch with Developing Implications) (03-Jul-18) 8)CARE AA (Under Credit watch with Developing Implications) (08-Jun-18)	1)CARE AA+ (Under Credit watch with Developing Implications) (14-Dec-17) 2)CARE AA+ (Under Credit watch with Developing Implications) (10-Nov-17)
4.	Debentures-Non Convertible Debentures	LT	6000.00	CARE B+ (Under Credit watch with Negative Implications)	1)CARE BB- (Under Credit watch with Negative Implications) (28-May-20)	1)CARE BB- (Under Credit watch with Negative Implications) (17-Feb-20) 2)CARE BBB- (Under Credit watch with Negative Implications) (22-Nov-19)	1)CARE AA-; Negative (15-Feb-19) 2)CARE AA; Negative (26-Nov-18) 3)CARE AA; Negative (13-Nov-18) 4)CARE AA; Negative (11-Sep-18)	1)CARE AA+ (Under Credit watch with Developing Implications) (10-Nov-17)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
						3)CARE A- (Under Credit watch with Negative Implications) (30-Oct-19) 4)CARE A; Negative (08-Aug-19) 5)CARE A+; Negative (10-Jun-19)	5)CARE AA (Under Credit watch with Developing Implications) (03-Jul-18) 6)CARE AA (Under Credit watch with Developing Implications) (08-Jun-18)	
5.	Commercial Paper	ST	-	-	-	1)Withdrawn (08-Aug-19) 2)CARE A1+ (10-Jun-19)	1)CARE A1+ (15-Feb-19) 2)CARE A1+ (26-Nov-18) 3)CARE A1+ (13-Nov-18) 4)CARE A1+ (11-Sep-18) 5)CARE A1+ (Under Credit watch with Developing Implications) (03-Jul-18) 6)CARE A1+ (Under Credit watch with Developing Implications) (08-Jun-18)	1)CARE A1+ (Under Credit watch with Developing Implications) (10-Nov-17)
6.	Debentures-Non Convertible Debentures	LT	1500.00	CARE B+ (Under Credit watch with Negative Implications)	1)CARE BB- (Under Credit watch with Negative Implications) (28-May-20)	1)CARE BB- (Under Credit watch with Negative Implications) (17-Feb-20) 2)CARE BBB- (Under Credit watch with Negative Implications) (22-Nov-19) 3)CARE A- (Under Credit watch with Negative Implications) (30-Oct-19) 4)CARE A;	1)CARE AA-; Negative (15-Feb-19) 2)CARE AA; Negative (26-Nov-18) 3)CARE AA; Negative (13-Nov-18) 4)CARE AA; Negative (11-Sep-18) 5)CARE AA (Under Credit watch with Developing Implications) (23-Aug-18)	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
						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)	1)CARE A1+ (21-Feb-19) 2)CARE A1+ (15-Feb-19) 3)CARE A1+ (26-Nov-18) 4)CARE A1+ (13-Nov-18) 5)CARE A1+ (26-Sep-18)	-
8.	Fund-based - ST-Term loan	ST	-	-	-	1)Withdrawn (08-Aug-19) 2)CARE A1+ (10-Jun-19)	1)CARE A1+ (21-Feb-19) 2)CARE A1+ (15-Feb-19) 3)CARE A1+ (26-Nov-18) 4)CARE A1+ (13-Nov-18) 5)CARE A1+ (26-Sep-18)	-
9.	Fund-based - ST-Term loan	ST	-	-	-	1)Withdrawn (10-Jun-19)	1)CARE A1+ (21-Feb-19)	-

Annexure-3: List of subsidiaries, associates and joint ventures of VIL getting consolidated (list as on June 30, 2020)

S.No.	Name of the company	% shareholding of VIL
2	Vodafone M-Pesa Limited	100.00%
3	Vodafone Idea Manpower Services Limited (formerly Idea Cellular Services Limited)	100.00%
4	Vodafone Idea Business Services Limited (formerly Vodafone Business Services Limited)	100.00%
5	Vodafone Idea Communication Systems Limited (formerly Mobile Commerce Solutions Limited)	100.00%
6	Vodafone Idea Shared Services Limited (formerly Vodafone India Ventures Limited)	100.00%
7	Vodafone Idea Technology Solutions Limited (formerly Vodafone Technology Solutions Limited)	100.00%
9	You Broadband India Limited	100.00%
10	Vodafone Foundation	100.00%
11	Vodafone Telecom Infrastructure Limited (formerly Vodafone Towers Limited)	100.00%
12	You System Integration Private Limited	100.00%
13	Connect (India) Mobile Technologies Private Limited	100.00%
14	Indus Tower Limited [^]	11.15%
15	Firefly Networks Limited [^]	50.00%
16	Aditya Birla Idea Payments Bank Limited*	49.00%

[^]-Joint Ventures *-Associate

Annexure-4: Complexity level of various instruments rated for this company

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

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