

Vodafone Idea

BSE SENSEX 84,929
S&P CNX 25,939



Bloomberg	IDEA IN
Equity Shares (m)	67879
M.Cap.(INRb)/(USDb)	736.2 / 8.8
52-Week Range (INR)	19 / 10
1,6,12 Rel. Per (%)	-36/-36/-36
12M Avg Val (INR M)	10378

Financials & Valuations (INR b)

INR b	FY24	FY25E	FY26E
Net Sales	427	453	525
EBITDA	171	187	227
Adj. PAT	-320	-290	-280
EBITDA Margin (%)	40.2	41.4	43.3
Adj. EPS (INR)	-11.1	-10.1	-9.7
EPS Gr. (%)	9.3	-9.3	-3.7
BV/Sh. (INR)	-32.4	-34.9	-43.6

Ratios

Net D:E	-2.4	-2.3	-2.0
RoE (%)	NM	NM	NM
RoCE (%)	-3.6	-2.4	-1.0
Payout (%)	0.0	0.0	0.0

Valuations

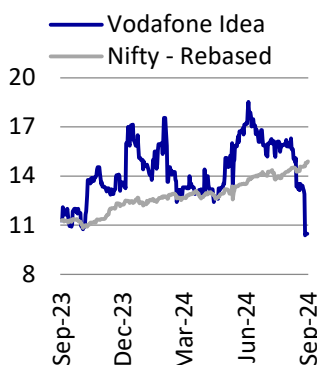
EV/EBITDA (x)	17.8	16.7	14.9
P/E (x)	-1.0	-1.1	-1.1
P/B (x)	-0.3	-0.3	-0.2

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	38.2	48.9	50.4
DII	31.3	34.4	33.9
FII	12.7	2.0	2.3
Others	17.9	14.7	13.4

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR11 **TP: INR12 (+11%)** **Neutral**

Initiation of the capex cycle

Vodafone Idea (VIL) conducted a call to discuss the key developments. It expects: a) the subscriber churn to reduce from 4Q onwards, since the capex rollout is expected to commence from 3Q, b) debt fundraising of INR350b to conclude in 7-8 weeks, and c) another tariff hike of ~20% next year.

Expect another tariff hike

- The management expects another tariff hike of ~20% (similar quantum of rate hike in Jul'24) between 2QFY26 and 3QFY26.
- It also expects equity conversion to commence once the moratorium ends (i.e. FY26/27).

Progress toward the capex plan – subscriber metrics could improve from 4QFY25

- The company has finalized a deal valued at INR300b with Nokia, Ericsson, and Samsung to supply network equipment. The delivery of the radio equipment is expected to begin in the second half of the upcoming quarter (Nov/Dec'24), followed by the deployment.
- Its radio equipment capex is critical and a substantial part of the capex rollout, which includes expanding 4G coverage and launching 5G.
- This is part of a three-year capex plan worth INR500-550b, where the remaining INR200-250b will be allocated to core and fiber. The company will deploy core and fiber coverage capacity on a need basis.
- Hence, we expect the long pending capex rollout to commence from 3QFY25 onwards and the subscriber metrics to improve from 4QFY25 onwards.
- In order to increase 4G coverage, the company plans to add 215-220k sites, up from the existing total of 170k sites.

Update on the debt fundraising – should conclude in 7-8 weeks

- The company has updated that it is in the advanced stages of discussions to secure loans worth INR350b (INR250b loan + INR100b LC facility).
- The LC facility of INR100b will be used to cover vendor credit for a year.
- SBI Bank has received an evaluation report, allowing banks to proceed with internal processes. Funding is expected to conclude in 7-8 weeks.

Supreme court dismissed the curative petition – VIL engaging with senior government officials

- While the dismissal of the curative petition was the final outcome of the court, the company is engaging with senior government officials to consider remedies.
- The company is in the process of putting together a comprehensive view of the calculation error and will engage with the government again in the coming days regarding those requests.

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- The management stated that the long-term business plan was developed without considering any potential benefits in the area of the matter.

Valuation and view

- VIL has experienced a continued rise in ARPU, led by the shift to 4G, higher data monetization, and an increase in minimum recharge vouchers. However, it has experienced an elevated subscriber churn during this period.
- Limited network investments have hindered the customer experience, resulting in subscriber churn. Over the next three years, the company expects to invest INR500-550b in expanding 4G coverage, launching 5G, and increasing capacity, all of which hold significant importance.
- However, it still holds a debt of INR2t with an annual installment of INR430b from FY26 onwards. This looks challenging against the 1QFY25 annualized EBITDA (IND-AS 116) of INR80b.
- The significant amount of cash required to service debt leaves limited upside opportunities for equity holders, despite the high operating leverage opportunity from any source of ARPU improvement. We expect the conversion into equity of unpaid installments post-moratorium to start by FY26/27.
- We are factoring in a revenue/EBITDA CAGR of 11/31% over FY24-26E. Assuming 14x EV/EBITDA, coupled with net debt, we derive our TP of INR12. Restriction in the subscriber churn rate could remain a key catalyst for the stock. **We reiterate our Neutral rating on the stock.**

Exhibit 1: Valuation of FY26

FY26-based SOTP	Methodology	Driver	Multiple	Fair Value (INRb)	Value/sh (INR)
Consol EBITDA	EV/EBITDA	227	14	3,183	47
Less Net debt				2,364	35
Total Value				819	12
Shares o/s (b)				67.9	
CMP (INR)					11
Upside (%)					9

Source: MOFSL

VIL payment timeline

We have worked out a tentative timeline outlining the VIL repayment conditions following the moratorium.

The assumptions are as follows:

- We have taken 1%/8% YoY subscriber/ARPU growth from FY27 onwards; this could be due to a) 2G to 4G shift, b) increase in data utilization, c) reduction in the subscriber churn owing to capex, and d) probable tariff hikes.
- We have taken 65% incremental EBITDA margin for EBITDA calculation.
- We have assumed INR100b capex p.a.
- Equity conversion by the government at INR20/share.

Exhibit 2: EBITDA calculation on the above assumptions

INRm	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
Subs (m)	212.6	206.1	209.6	211.7	213.8	216.0	218.1	220.3	222.5	224.7	227.0
Growth	-6%	-3%	2%	1%	1%	1%	1%	1%	1%	1%	1%
ARPU (INR)	162	165	190	220	238	257	277	299	323	349	377
Growth	8%	2%	15%	16%	8%	8%	8%	8%	8%	8%	8%
Revenue	4,26,517	4,52,878	5,25,083	6,08,660	6,61,257	7,18,523	7,80,877	8,48,778	9,22,724	10,03,259	10,90,978
Growth	1%	6%	16%	16%	16%	16%	16%	16%	16%	16%	16%
EBITDA	84,000	1,03,308	1,43,182	1,97,507	2,31,695	2,68,918	3,09,449	3,56,979	4,08,741	4,65,116	5,26,519
EBITDA margin	20%	23%	27%	32%	35%	37%	40%	42%	44%	46%	48%
Growth	1%	23%	39%	38%	17%	16%	15%	15%	15%	14%	13%

Source: MOFSL, Company

Exhibit 3: Calculation of cash generation/equity conversion following the moratorium

INRm	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
EBITDA	1,03,308	1,43,182	1,97,507	2,31,695	2,68,918	3,09,449	3,56,979	4,08,741	4,65,116	5,26,519
less: Capex	-1,50,000	-1,50,000	-1,00,000	-1,00,000	-1,00,000	-1,00,000	-1,00,000	-1,00,000	-1,00,000	-1,00,000
less: Debt installment*	-37,257	-37,257	-37,257	-37,257	-37,257	-37,257	-37,257	-37,257	-37,257	-37,257
less: AGR and spectrum installment		-2,41,671	-4,39,925	-4,39,925	-4,39,925	-4,39,925	-4,39,925	-2,61,334	-2,61,334	-63,079
Cash as on 1QFY25 (including debt funding of INR250b)	4,37,057	0	0	0	0	0	0	0	0	0
FCF/(Equity conversion required)	3,53,107	-2,85,746	-3,79,675	-3,45,487	-3,08,264	-2,67,734	-2,20,203	10,150	66,525	3,26,182

Source: MOFSL

Note: * Calculated instalments on INR250b for 10 years at 8% rate.

Exhibit 4: Calculation of expected equity conversion

INRm	FY25	FY26	FY27	FY28	FY29	FY30	FY31
a) FCF/(equity conversion required)	3,53,107	-2,85,746	-3,79,675	-3,45,487	-3,08,264	-2,67,734	-2,20,203
b) Assumed conversion at INR20/share			20	20	20	20	20
c) No of shares issued (a/b)			28,116	17,274	15,413	13,387	11,010
d) Current VIL shares	68,039						
e) Total cumulative shares post-conversion (c+d)			83,655	1,00,929	1,16,342	1,29,729	1,40,739
f) Government cumulative holding post-conversion (c+f)	15,771		31,387	48,661	64,075	77,461	88,472
g) Government holding %	23.18%		37.5%	48.2%	55.1%	59.7%	62.9%

Source: MOFSL

The above calculation showing the increase of government holding to +50% (highlighted yellow) is only in case of equity conversion (no additional fund raise), which makes it a government company.

To remain a private company, there might be a probability of additional fund raise along with equity conversion (<49%) to ensure the company's sustainability.

Financials and Valuation

Consolidated - Income Statement

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	371	450	420	385	422	427	453	525
Change (%)	31.2	21.2	-6.7	-8.2	9.5	1.1	6.2	15.9
Total Expenditure	330	300	250	225	254	255	265	298
% of Sales	89.1	66.8	59.6	58.4	60.1	59.8	58.6	56.7
EBITDA	40	149	169	160	168	171	187	227
Margin (%)	10.9	33.2	40.4	41.6	39.9	40.2	41.4	43.3
Depreciation	145	244	236	236	230	226	224	243
EBIT	-105	-94	-67	-75	-62	-55	-36	-16
Int. and Finance Charges	87	144	178	209	230	257	245	264
PBT bef. EO Exp.	-192	-238	-245	-284	-293	-312	-281	-280
Share of Profits of Associates	2	4	2	0	0	0	0	0
EO Items	-9	384	200	-2	0	-8	0	0
PBT after EO Exp.	-182	-618	-443	-282	-293	-304	-281	-280
Total Tax	-36	121	0	0	0	8	0	0
Tax Rate (%)	19.7	-19.5	0.0	0.0	0.0	-2.7	0.0	0.0
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	-146	-739	-442	-282	-293	-312	-281	-280
Adjusted PAT	-161	-217	-243	-284	-293	-320	-290	-280
Change (%)	NM	34.5	11.7	17.1	3.1	9.3	-9.3	-3.7
Margin (%)	-43.5	-48.3	-57.8	-73.8	-69.4	-75.0	-64.1	-53.2

Consolidated - Balance Sheet

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	87	287	287	321	487	501	679	679
Total Reserves	509	-228	-670	-941	-1,230	-1,543	-1,801	-2,080
Net Worth	596	60	-382	-620	-744	-1,042	-1,122	-1,402
Total Loans	1,085	1,106	1,660	2,138	2,444	2,511	2,742	2,866
Deferred Tax Liabilities	-103	0	0	0	0	0	0	0
Capital Employed	1,579	1,166	1,277	1,518	1,701	1,469	1,620	1,465
Gross Block	2,147	2,471	2,524	2,653	2,878	2,943	3,143	3,343
Less: Accum. Deprn.	369	612	849	1,085	1,315	1,541	1,765	2,009
Net Fixed Assets	1,778	1,858	1,675	1,568	1,563	1,401	1,377	1,334
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	51	11	6	4	179	182	182	182
Total Investments	82	20	0	0	0	0	0	0
Curr. Assets, Loans & Adv.	282	380	354	368	331	267	441	329
Inventory	0	0	0	0	0	0	0	0
Account Receivables	33	31	25	24	22	22	23	27
Cash and Bank Balance	10	27	22	35	9	5	164	30
Loans and Advances	239	322	307	309	301	239	254	273
Curr. Liability & Prov.	615	1,103	757	422	372	381	381	381
Account Payables	611	1,100	757	422	372	380	380	380
Provisions	4	4	1	1	0	0	0	0
Net Current Assets	-333	-724	-404	-54	-41	-114	61	-51
Appl. of Funds	1,579	1,166	1,277	1,518	1,701	1,469	1,620	1,465

E: MOFSL Estimates

Financials and Valuation

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	-18.5	-7.6	-8.4	-9.9	-10.2	-11.1	-10.1	-9.7
Cash EPS	-1.8	0.9	-0.2	-1.7	-2.2	-3.3	-2.3	-1.3
BV/Share	68.3	2.1	-13.3	-19.3	-23.2	-32.4	-34.9	-43.6
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	-0.6	-1.4	-1.3	-1.1	-1.1	-1.0	-1.1	-1.1
Cash P/E	-5.9	11.9	-49.8	-6.5	-5.0	-3.3	-4.7	-8.6
P/BV	0.2	5.2	-0.8	-0.6	-0.5	-0.3	-0.3	-0.2
EV/Sales	3.2	3.1	4.6	6.4	7.0	7.2	6.9	6.4
EV/EBITDA	26.9	9.2	11.5	15.3	17.6	17.8	16.7	14.9
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Return Ratios (%)								
RoE	-37.2	-66.2	NM	NM	NM	NM	NM	NM
RoCE	-6.7	-7.9	-5.5	-5.4	-3.9	-3.6	-2.4	-1.0
RoIC	-7.8	-8.9	-5.7	-5.5	-4.2	-4.0	-2.9	-1.3
Working Capital Ratios								
Fixed Asset Turnover (x)	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.2
Asset Turnover (x)	0.2	0.4	0.3	0.3	0.2	0.3	0.3	0.4
Inventory (Days)	0	0	0	0	0	0	0	0
Debtor (Days)	32	25	22	23	19	19	19	19
Leverage Ratio (x)								
Current Ratio	0.5	0.3	0.5	0.9	0.9	0.7	1.2	0.9
Interest Cover Ratio	-1.2	-0.7	-0.4	-0.4	-0.3	-0.2	-0.1	-0.1
Net Debt/Equity	1.7	17.7	-4.3	-3.4	-3.3	-2.4	-2.3	-2.0

Consolidated - Cash Flow Statement

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	-182	-618	-443	-282	-293	-304	-281	-280
Depreciation	145	244	236	236	230	226	224	243
Interest & Finance Charges	88	144	178	209	234	258	245	264
Direct Taxes Paid	3	24	8	15	-13	0	0	0
(Inc)/Dec in WC	28	-92	-14	-3	6	6	-16	-22
CF from Operations	83	-299	-34	174	189	186	171	205
Others	-29	372	191	0	0	0	0	0
CF from Operating incl EO	53	73	156	174	189	186	171	205
(Inc)/Dec in FA	-76	-78	-45	-57	-55	-20	-200	-200
Free Cash Flow	-22	-5	111	117	133	167	-29	5
(Pur)/Sale of Investments	-4	65	42	0	0	0	0	0
Others	6	-15	14	0	1	0	0	0
CF from Investments	-74	-28	11	-57	-54	-19	-200	-200
Issue of Shares	0	249	0	45	4	0	201	0
Inc/(Dec) in Debt	21	-81	-44	-53	-51	-74	131	124
Interest Paid	-51	-153	-28	-28	-21	-29	-145	-264
Dividend Paid	0	0	0	0	0	0	0	0
Others	57	-65	-96	-69	-79	-87	0	0
CF from Fin. Activity	28	-49	-167	-106	-147	-190	187	-139
Inc/Dec of Cash	7	-4	0	11	-12	-23	158	-134
Opening Balance	0	8	4	4	15	2	2	160
Closing Balance	8	4	4	15	2	-20	160	26
Other Balances	2	23	19	20	6	26	4	4
Total Balance	10	27	22	35	9	5	164	30

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
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