

Relative competitive standing remains weakest...

Vodafone Idea's Q4FY19 performance was a mixed bag. The company reported 57% QoQ (~40% on an adjusted basis) improvement in EBITDA owing to synergy benefits as well as one-off write backs of ~₹ 200 crore. On the other hand, a steep subscriber loss of 53.1 mn customers during the quarter owing to churn from incoming only minimal ARPU, coupled with merely ~5.4 mn net 4G sub addition was a dampener.

Underlying KPI remains weak

Revenue growth was at 0.1% QoQ, with ARPU at ₹ 104 (up ~16.9% QoQ). We note that ARPU increase is merely a mathematical kick on lower subscriber base. Therefore, it does not reflect any improvement in pricing/up-trading, etc. Most importantly, post-paid subscriber base at ~23.1 million declined sequentially by 0.57 mn (2.4% decline QoQ). We also highlight that the company's net addition of 5.4 million 4G customers (largely conversion of own base in areas where it is expanding) in Q4FY19, is still lower than competition, reflecting the weaker relative standing.

On-track for full synergy realisation by FY21

As per the company, network integration is moving at a fast pace & 10 circles now have integrated their network (consolidation of the spectrum and radio access network) while other circles are being integrated on a cluster by cluster basis. Moreover, it has refarmed additional carriers of 2G/3G to 4G in six circles. The company reiterated its target to largely integrate the network by June, 2020 and increase overall network capacity to 2.5x.

Guides for ~₹ 17k crore capex in FY20; fund raising done

The company informed that proforma capex for FY19 for combined entity was ~₹ 10220 crore, implying the guided capex for FY20 would be ~₹ 16,800 crore. We note that this capex, notwithstanding use of equipment from exited sites, is lower than peers. The company also completed the rights issue (in Q1FY20) wherein promoter shareholders, Vodafone Group and Aditya Birla Group, contributed ₹ 17920 crore.

Valuation & Outlook

The Vodafone-Idea combine is the weakest of the remaining three players in the telecom segment, notwithstanding recent fund raising, which will only provide temporary relief for four to six quarters. We reiterate that market repair remains key for survival. Recent net sub loss (reflection of weak sub quality) and post-paid customer net loss clearly reflects the relative weak position. We now incorporate the recent fund raise led dilution, IUC cut impact (from Q4FY20) in our estimates. We downgrade the stock to REDUCE with DCF based target price of ₹ 12/share.



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	40,229.8
Total Debt (₹ Crore)	126,059.7
Cash & Investments (₹ Crore)	13,553.1
EV (₹ Crore)	152,736.4
52 week H/L	118 / 33
Equity capital (₹ crore)	8,735.1
Face value (₹)	10.0

Key Highlights

- QoQ 57% (~40% on adjusted basis) improvement in EBITDA owing to synergy benefits as well as one-off write-backs of ~₹ 200 crore
- Steep subscriber loss of 53.1 mn customers during the quarter owing to churn from incoming only minimal ARP. This also provided a mathematical kick to ARPU on low base, up 16.9% QoQ to ₹ 104
- Post-paid subscriber base at ~23.1 million declined sequentially by 0.57 mn (2.4% decline QoQ)
- We downgrade to REDUCE with DCF based target price of ₹ 12/share

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Key Financial Summary

(Year-end March)	FY17	FY18	FY19	FY20E	FY21E	CAGR FY19-21E
Net Sales (₹ crore)	35,575.7	28,278.9	37,092.5	47,463.3	47,670.1	13.4
EBITDA (₹ crore)	10,276.3	6,047.5	4,043.0	8,620.0	11,418.3	68.1
Adjusted PAT (₹ crore)	(399.7)	(4,168.2)	(15,455.9)	(18,403.4)	(15,172.1)	
Adjusted EPS (₹)	(1.1)	(9.6)	(17.7)	(6.4)	(5.3)	
Adjusted P/E (x)	(12.6)	(1.5)	(0.8)	(2.2)	(2.7)	
Price / Book (x)	0.2	0.2	0.2	0.5	0.6	
EV/EBITDA (x)	8.8	15.3	39.2	15.9	13.1	
RoCE (%)	3.3	(2.3)	(5.0)	(3.9)	(2.7)	
RoE (%)	(1.6)	(15.3)	(25.9)	(21.9)	(22.0)	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	Q3FY19	YoY (%)	QoQ (%)	
Revenue	11,775.0	11,978.4	6,137.3	11,764.8	NA	0.1	
Other Income	156.6	215.0	250.4	218.0	NA	-28.2	
Employee Expenses	729.2	718.7	259.5	679.3	NA	7.3	
Marketing Expenses	1,132.0	1,199.9	816.7	1,178.5	NA	-3.9	
Network operating expenditure	5,099.0	5,498.2	2,142.9	5,665.9	NA	-10.0	Lower network opex was function of synergy benefits and one-offs of ~₹ 200 crore of writeback
License and WPC Charges	1,261.5	1,299.7	532.7	1,276.5	NA	-1.2	
Roaming & Access Charges	1,249.6	1,218.9	710.9	1,197.2	NA	4.4	
Total Operating Cost	9,627.9	10,150.4	4,713.1	10,215.4	NA	-5.8	
EBITDA	1,785.3	1,401.4	1,447.1	1,136.9	NA	57.0	Higher margins on account of quicker than anticipated synergy benefits, especially in network operating cost
EBITDA Margin (%)	15.2	11.7	23.6	9.7	NA	NA	
Depreciation	4,663.9	4,773.4	2,085.4	4,773.4	NA	-2.3	
Interest	2,946.0	2,948.8	1,224.6	2,824.8	NA	4.3	
Total Tax	-1,877.0	-1,526.5	-575.8	-1,999.7	NA	NA	
PAT	-4,881.9	-4,539.6	-962.2	-5,004.6	NA	NA	Losses accentuated by exceptional items of ₹ 1146 crore (attributable to integration led one-off costs and some assets impairment)
Key Metrics							
Subscribers (Million)	334.1	379.5	194.5	387.2	71.8	-13.7	
ARPU (Rs)	104	95	105	89	-1.0	16.9	
MoU (Rs)	665	580	577	580	15.2	14.6	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	48,664.2	47,463.3	-2.5	53,750.2	47,670.1	-11.3	Lower our revenue estimates to incorporate IUC cut from January, 2020
EBITDA	8,448.8	8,620.0	2.0	11,544.7	11,418.3	-1.1	Build in lower operating costs on account of synergy benefits, which will be offset by lower net income from IUC cut
EBITDA Margin (%)	17.4	18.2	80 bps	21.5	24.0	247 bps	
PAT	-20,459.2	-18,403.4	NM	-18,991.5	-15,172.1	NM	Lower losses on lower net interest expenses due to equity fund raising
EPS (₹)	-23.4	-6.4	NM	-21.7	-5.3	NM	

Source: Company, ICICI Direct Research

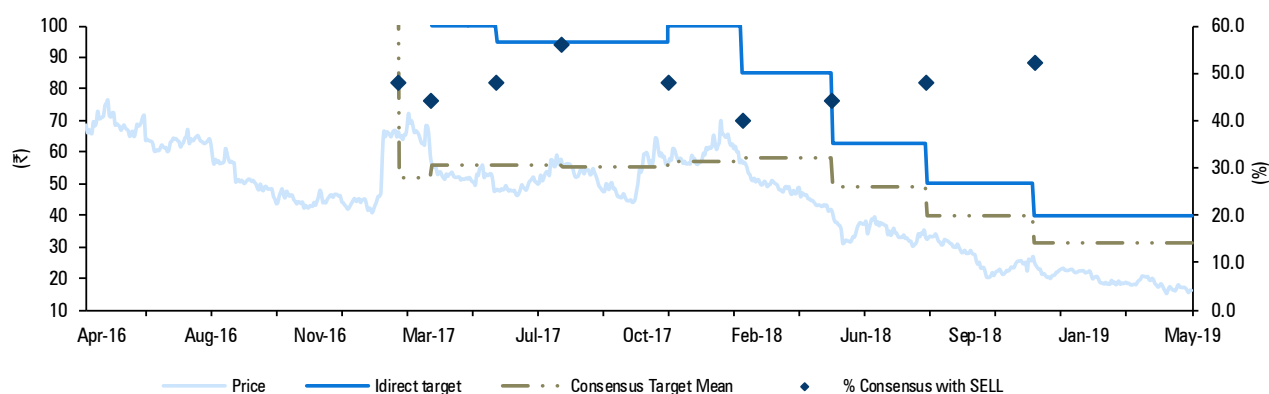
Conference Call and other Highlights

- Network integration on track:** The management indicated the network integration is moving at a fast pace and 10 circles (West Bengal (December 2018), Andhra Pradesh, Haryana, Madhya Pradesh, Himachal Pradesh, Assam, North East, J&K (January 2019), Bihar (February 2019) and Punjab (March 2019) now have integrated their network (consolidation of the spectrum and radio access network), while other circles are being integrated on cluster by cluster basis. Post integration, the capacity in these circles has increased by ~34% QoQ, leading to improved net promoter score and higher download speeds. Furthermore, the company has removed surplus equipment on 24,000 sites out of the total 67,000 co-located sites and exited ~9,900 low utilisation sites, to drive cost rationalisation. Moreover, it has refarmed additional carriers of 2G/3G to 4G in six circles. The company reiterated their target to largely integrate the network by June, 2020 and increase the overall network capacity to 2.5x. ***At the current run rate, annualised synergy realisation is at ~₹ 5100 crore, ~60% of the ₹ 8400 crore synergy target***
- Network coverage & capacity:** The company added 8,915 4G TDD sites and deployed massive MIMO on around 2,000 sites in select key locations. The 4G coverage is now at ~65% (vs. less than 50% as on August, 2018). The company also reiterated the guidance to achieve the 4G coverage of more than 95% of population in high potential districts by March 2020
- Distribution and retail channel integration:** The integration of distribution channels has resulted in less than half of residual distribution as the company now follows single tier distribution approach of Idea pan-Idea vs. two tiered approach of Vodafone in rural areas. The retail outlets have also been consolidated with company retaining better of the two outlets in geographical areas
- Sub rationalisation largely done; some residual impact to be seen in Q1:** The management indicated that majority of subscriber rationalisation on account of minimum recharge implementation is done while some residual impact may be seen in Q1FY20. It also indicated that most of exits resulted in consolidation of SIM in one of its network. It may also have gained from other incumbent minimum recharge implementation
- Guides for ~180000 unique sites post integration:** The company indicated that post integration it will have ~180000 base stations with both 2G and 4G. With superior usage of combined spectrum, it would be sufficient.
- Focus on non-mobility:** The company is also focusing on growing segments of IoT solutions, cloud offerings, carrier services, etcetera, while leveraging Vodafone group's global enterprise relationships. They have launched NB-IoT commercial trials in four Indian cities

Others

- Capex guidance was at ~₹ 17000 crore FY20 combined, Net debt was at ~₹ 1.18 lakh crore (up ~₹ 3500 crore QoQ)
- The broadband subscriber base was 110.2 million (4G sub base was 80.7 million). Total data volumes grew 9% QoQ to 2,947 billion MB and the average daily data volume increased 11.4% QoQ to 32.7 billion MB. Total minutes on the network declined 1.3% during the quarter, due to reduction in incoming minutes following the disconnection of 'Incoming only' or 'Low ARPU' customers

Exhibit 3: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 4: Top 10 Shareholders

Name	Latest Filing Date	% O/S	Position (m)	Position Change (m)
1 Aditya Birla Group	31-03-2019	4.3	1,236.88M	0.0
2 Euro Pacific Securities Ltd	31-03-2019	2.8	792.75M	0.0
3 Axiata Group Bhd	31-03-2019	2.5	712.00M	0.0
4 Prime Metals Ltd	31-03-2019	2.3	664.40M	0.0
5 Mobilvest	31-03-2019	1.8	509.50M	0.0
6 Vodafone International Holdings Bv	31-03-2019	1.7	493.85M	0.0
7 Trans Crystal Ltd	31-03-2019	1.6	444.19M	0.0
8 Birla TMT Holdings Pvt. Ltd.	31-03-2019	1.2	353.80M	0.0
9 IGH Holdings Pvt. Ltd.	31-03-2019	1.2	349.62M	0.0
10 Asian Telecommunication Investments Mauritius Ltd	31-03-2019	1.0	298.06M	0.0

Source: Reuters, ICICI Direct Research

Exhibit 5: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
BlackRock Institutional Trust Company, N.A.	+19.87M	+89.54M	First State Investments (Singapore)	-42.26M	-77.87M
ICICI Prudential Asset Management Co. Ltd.	+19.82M	+89.32M	Goldman Sachs Asset Management International	-9.16M	-17.53M
TOBAM	+11.08M	+42.01M	Goldman Sachs Asset Management (US)	-1.45M	-3.43M
Franklin Templeton Asset Management (India) Pvt. Ltd.	+9.18M	+16.91M	Goldman Sachs Asset Management (India) Private Ltd.	-0.89M	-1.70M
SBI Funds Management Pvt. Ltd.	+4.38M	+16.59M	Pictet Asset Management Ltd.	-0.41M	-1.55M

Source: Reuters, ICICI Direct Research

Exhibit 6: Shareholding Pattern

(in %)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoter	42.38	42.56	32.89	71.33	71.33
FII	27.23	26.72	26.00	12.35	13.13
DII	7.84	6.71	11.84	3.84	3.07
Others	22.55	24.01	29.27	12.48	12.47

Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating income	28278.9	37092.5	47463.3	47670.1
Growth (%)	-20.5	NA	NA	0.4
Employee Expenses	1,543.0	2,294.4	2,847.8	2,621.9
Roaming & Access Charges	3,535.8	4,169.0	4,436.3	3,336.9
Network operating expenditure	9,733.4	17,005.2	19,989.9	19,412.3
License and WPC Charges	2,866.7	3,933.1	4,983.7	4,910.0
SG&A Expenses	3,609.0	3,844.6	4,509.0	3,956.6
Other Costs	943.5	1,803.2	2,076.7	2,014.1
Total Operating Expenditure	22231.4	33049.5	38843.3	36251.8
EBITDA	6047.5	4043.0	8620.0	11418.3
Growth (%)	-41.2	NA	NA	32.5
Depreciation	8409.1	14535.6	17561.4	17637.9
Interest	4813.0	9462.8	10561.5	10052.1
Other Income	353.0	731.1	880.0	880.0
Non Operating Expenses	0.0	0.0	0.0	0.0
PBT	-6821.6	-19224.3	-18623.0	-15391.7
MV Profit from associates	-322.4	-196.8	-219.6	-219.6
Total Tax	-2331.0	-3571.6	0.0	0.0
PAT	-4168.2	-15455.9	-18403.4	-15172.1
Growth (%)	NM	NM	NM	NM
EPS (₹)	-9.6	-16.7	-6.4	-5.3

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	4,359.3	8,735.6	28,735.6	28,735.6
Reserve and Surplus	22,903.2	50,899.2	55,383.5	40,211.3
Others	0.0	0.0	0.0	0.0
Total Shareholders funds	27,262.5	59,634.8	84,119.1	68,946.9
Total Debt	57,985.2	125,939.9	110,939.9	116,939.9
Deferred Tax Liability	65.9	47.1	47.1	47.1
Others	3,363.5	10,248.3	10,248.3	10,248.3
Total Liabilities	88,677.1	195,870.1	205,354.4	196,182.2
Assets				
Gross Block	129,506.4	291,961.1	308,461.1	323,461.1
Less: Acc Depreciation	49,814.5	114,164.6	131,726.0	149,363.9
Net Block	79,691.9	177,796.5	176,735.1	174,097.1
Capital WIP	3,585.3	5,103.0	5,103.0	5,103.0
Total Fixed Assets	83,277.2	182,899.5	181,838.1	179,200.1
Investments	1,660.1	1,533.4	1,533.4	1,533.4
Inventory	36.7	4.2	5.4	5.4
Debtors	887.4	3,300.0	4,226.2	4,244.6
Loans and Advances	35.8	2.7	3.5	3.5
Other Current Assets	1,791.5	7,194.0	9,205.4	9,245.5
Cash	29.1	990.8	7,229.2	744.5
Total Current Assets	2,780.5	11,491.7	20,669.7	14,243.4
Creditors	3,547.9	13,516.6	13,003.7	13,060.3
Provisions	333.1	384.6	333.0	301.0
Total Current Liabilities	3,881.0	13,901.2	13,336.7	13,361.3
Net Current Assets	-1,100.5	-2,409.5	7,333.0	882.1
Other Non Current Assets	2,197.7	16,546.1	16,546.1	16,546.1
Application of Funds	88,677.1	195,870.1	205,354.4	196,182.2

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	-4,168.2	-14,603.8	-18,403.4	-15,172.1
Add: Depreciation	8,409.1	14,535.6	17,561.4	17,637.9
Add: Interest paid	4,813.0	9,462.8	10,561.5	10,052.1
(Inc)/dec in Current Assets	(1,152.2)	(6,880.1)	(2,939.5)	(58.5)
Inc/(dec) in CL and Provisions	-4,128.9	23,929.3	-1,367.7	108.0
Others	0.0	0.0	0.0	0.0
CF from op. activities	3,772.8	26,443.8	5,412.3	12,567.3
(Inc)/dec in Investments	-912.2	-948.1	0.0	0.0
(Inc)/dec in Fixed Assets	-7,388.0	-114,157.9	-16,500.0	-15,000.0
Others	-342.4	-15,844.1	0.0	0.0
CF from inv. activities	-8,642.6	-130,950.1	-16,500.0	-15,000.0
Issue/(Buy back) of Equity	754.0	4,376.3	20,000.0	0.0
Inc/(dec) in loan funds	2,930.7	67,954.7	-15,000.0	6,000.0
Dividend paid & dividend tax	0.0	0.0	0.0	0.0
Interest Paid	-4,813.0	-9,462.8	-10,561.5	-10,052.1
Others	5,944.4	42,487.6	23,000.0	0.0
CF from fin. activities	4,816.1	105,355.8	17,438.5	-4,052.1
Net Cash flow	-53.7	849.5	6,350.8	-6,484.8
Opening Cash	82.7	29.0	878.5	7,229.2
Closing Cash	29.0	878.5	7,229.2	744.5

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
EPS	-9.6	-16.7	-6.4	-5.3
Cash EPS	9.7	-0.1	-0.3	0.9
BV	62.5	68.3	29.3	24.0
DPS	0.0	0.0	0.0	0.0
Cash Per Share	0.1	1.1	2.5	0.3
Operating Ratios				
EBITDA Margin (%)	21.4	10.9	18.2	24.0
EBIT Margin (%)	-8.4	-28.3	-18.8	-13.0
PAT Margin (%)	-14.7	-41.7	-38.8	-31.8
Inventory days	0.5	0.0	0.0	0.0
Debtor days	11.5	32.5	32.5	32.5
Creditor days	45.8	133.0	100.0	100.0
Return Ratios (%)				
RoE	-15.3	-25.9	-21.9	-22.0
RoCE	-2.3	-5.0	-3.9	-2.7
RoIC	-3.2	-6.7	-5.6	-4.0
Valuation Ratios (x)				
P/E	-1.5	-0.8	-2.2	-2.7
EV / EBITDA	15.3	39.2	15.9	13.1
EV / Net Sales	3.3	4.3	2.9	3.1
Market Cap / Sales	1.4	1.1	0.8	0.8
Price to Book Value	0.2	0.2	0.5	0.6
Solvency Ratios				
Debt/EBITDA	9.6	31.2	12.9	10.2
Debt / Equity	2.1	2.1	1.3	1.7
Current Ratio	0.3	0.3	0.4	0.4
Quick Ratio	0.3	0.3	0.4	0.4

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct Coverage Universe (Telecom)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Vodafone Idea	14	12	Reduce	40,230	-16.7	-6.4	-5.3	NM	NM	NM	39.2	15.9	13.1	-2.3	-5.0	-3.9	-15.3	-25.9	-21.9
Sterlite Tech	166	180	Reduce	6,664	14.0	14.7	15.0	11.8	11.3	11.0	7.5	6.8	5.8	29.7	27.8	26.9	28.7	33.1	27.5
Tata Comm	547	540	Hold	15,601	-2.9	7.1	12.8	NM	NM	42.9	8.9	8.7	7.7	5.9	5.4	5.8	9.4	127.7	-255.5

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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