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Q4FY21 result review
and earnings revision

Telecom

Target price: Rs5

Earnings revision

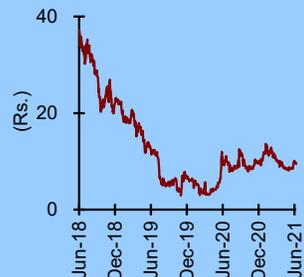
(%)	FY22E	FY23E
Sales	↓ 7.4	↓ 9.9
EBITDA	↓ 11.4	↓ 14.4

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	72.1	72.1	72.1
Institutional investors	7.1	7.5	5.7
MFs and other	0.5	1.0	0.6
FIs / Banks	0.0	0.0	0.0
Insurance Cos.	0.4	0.4	0.5
FII	6.2	6.1	4.6
Others	20.8	20.5	22.2

Source: NSE

Price chart



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INDIA

ICICI Securities

Vodafone Idea Ltd

SELL

Maintained

Rs10

Liabilities coming up for payment soon

Vodafone Idea's (VIL) Q4FY21 cash EBITDA at Rs22bn benefited from one-off gains in network cost of Rs4.5bn; adjusted cash EBITDA came in below our estimate despite cost-saving efforts. Though VIL has seen marginal improvement in 4G subscriber (sub) addition and lower total subs loss, it is too little to make any difference, in our view. We see liabilities coming up for payment soon and VIL may have cashflow mismatch. The efforts to raise funds has also not yielded any outcome yet. Relief from government on spectrum payment, and reduction in AGR liability on SC accepting reconciliation are other hopes. We have cut our EBITDA estimates by 11%/14% for FY22E/FY23E, but maintained our target price of Rs5 as we increase the EBITDA multiple to 13.3x (from 10.5x earlier). **SELL**.

Earnings call on 2th July, 2021 (Friday) at 2:30PM IST. Click [here](#) for registration.

- ▶ **Key variables showed improving prints:** VIL had sub loss of just 2mn – same as in the previous quarter. Company has added 4.2mn 4G subs (it has been improving in past few quarters). Gross sub addition has improved to 22mn (vs 13.5mn in past 12 months), which is helping reduce sub loss. Data usage grew 8.2% QoQ to 4,489bn MB as network quality improved.
- ▶ **Adjusted for IUC impact, revenues down 2.2% QoQ to Rs96bn.** VIL's mobile revenues were stable QoQ if adjusted for 2 days less during the quarter, and IUC impact. This was despite loss of 2mn subs due to rise in 4G subs, which should have helped organic ARPU growth. On reported basis, ARPU was down 11.6% QoQ to Rs107. Postpaid sub base has grown marginally by 0.1mn to 20.9mn, which should have also helped. Minutes continued to decline (down 3.3% QoQ and 14% YoY), to 529bn.
- ▶ **Cash EBITDA (adjusted for Ind-AS 116) at Rs22bn.** EBITDA at Rs44bn was up 2.9% QoQ due to one-off gains in cost (network and IT) of Rs4.5bn; adjusted EBITDA dipped 7.6% QoQ despite strong efficiency in cost savings. Adjusted for one-offs, network cost was down 1.1% QoQ, employee cost fell 13% QoQ while SG&A cost rose 18% QoQ due to higher selling and marketing expenses. Adjusted for Ind-AS 116, EBITDA was Rs22bn (up 3% QoQ and down 18% QoQ if we adjust for one-off gains). EBITDA should have been impacted by nil IUC revenue as VIL was net IUC receiver earlier.
- ▶ **Total debt including AGR dues and accrued interest was Rs1,867bn.** The figure includes deferred spectrum liability of Rs963bn, AGR liability of Rs610bn, and bank borrowing of Rs231bn. The liabilities due for payment in next 12 months are: **1)** annual payment (includes interest) towards AGR liability of Rs80bn in Mar'22 (this is assuming nil payment for Mar'21 dues, which is yet to be clarified); **2)** bank guarantee of Rs70bn coming up for renewal (the company has to give additional bank guarantee of Rs10bn); **3)** annual payment towards spectrum due in Apr'22 – of Rs82bn. Company has requested DOT for deferment of some of the payments due to cashflow crunch. We see payment of liabilities coming soon, while fund availability remains a challenge.

Market Cap	Rs286bn/US\$3.8bn
Reuters/Bloomberg	IDEA.BO/IDEA IN
Shares Outstanding (mn)	28,735.4
52-week Range (Rs)	14/8
Free Float (%)	27.9
FII (%)	4.6
Daily Volume (US\$/'000)	45,060
Absolute Return 3m (%)	7.6
Absolute Return 12m (%)	(6.1)
Sensex Return 3m (%)	6.5
Sensex Return 12m (%)	52.4

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs bn)	450	420	435	499
Net Income (Rs bn)	(618.0)	(242.7)	(211.0)	(175.9)
EPS (Rs)	(25.7)	(15.4)	(7.3)	(6.1)
% Chg YoY	na	na	na	na
P/E (x)	(0.4)	(0.6)	(1.4)	(1.6)
CEPS (Rs)	(13.0)	(0.2)	0.4	1.5
EV/E (x)	9.4	11.9	10.7	9.3
Dividend Yield (%)	-	-	-	-
RoCE (%)	(5.2)	(1.2)	2.6	5.5
RoE (%)	274.3	43.2	25.8	18.1

Please refer to important disclosures at the end of this report

Other highlights

- Sub-base shrunk 0.7% QoQ (net loss: 2mn); the decline has been stable at Q3FY21 levels compared to Bharti Airtel's sub addition of 13.4mn in Q4FY21. VIL's ARPU dipped to Rs107, down 11.6% QoQ, on account of nil revenue from IUC, which impacted ARPU by 9.6%. Postpaid subs rose 0.1mn (up 0.5% QoQ) to 20.9mn.
- 4G sub-base stood at 113.9mn, up 4.2mn. Mobile broadband subs rose 2.8mn to 123.6mn in Q4FY21, which also included 3G subs. Total data subs were up 2.3mn to 140mn. Data sub base across categories has shown recovery but is much below peers, which means market share loss continues.
- Mobile minutes dipped 3.3% QoQ to 529bn, implying a net loss of 18bn minutes QoQ. Minutes per user dipped 2.4% QoQ at 657.
- Data usage rose 8.2% QoQ to 4,856bn-MB on 6.3% QoQ growth in data usage per mobile broadband sub. Mobile broadband subs used 13GB data per month.
- Churn rate slightly increased to 3% in Q4FY21. Company's gross subscriber addition was at 22.3mn in Q4FY21 (vs 16.9mn in Q3FY21).
- Capex for the quarter stood at Rs15.4bn (16% of total revenues); it was Rs41.5bn for FY21 (10% of revenues).
- Net debt stood at Rs1,739bn, up Rs580bn, on inclusion of AGR liability. Cash balance stood at Rs22bn.

Table 1: Vodafone-Idea (consolidated)

(Rs mn)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ (%)	YoY (%)
Revenue	1,17,542	1,06,593	1,07,912	1,08,941	96,076	(11.8)	(18.3)
Network operation cost	25,872	24,110	24,319	26,143	21,366	(18.3)	(17.4)
<i>% of revenue</i>	<i>22.0</i>	<i>22.6</i>	<i>22.5</i>	<i>24.0</i>	<i>22.2</i>		
Roaming & access charges	16,100	15,026	15,347	16,059	6,474	(59.7)	(59.8)
<i>% of revenue</i>	<i>13.7</i>	<i>14.1</i>	<i>14.2</i>	<i>14.7</i>	<i>6.7</i>		
License fees and spect charges	13,394	10,017	9,948	10,923	10,407	(4.7)	(22.3)
<i>% of revenue</i>	<i>11.4</i>	<i>9.4</i>	<i>9.2</i>	<i>10.0</i>	<i>10.8</i>		
Employee cost	3,210	5,718	5,104	5,070	4,408	(13.1)	37.3
<i>% of revenue</i>	<i>2.7</i>	<i>5.4</i>	<i>4.7</i>	<i>4.7</i>	<i>4.6</i>		
SGA and other exp	15,165	10,738	11,670	7,884	9,334	18.4	(38.5)
<i>% of revenue</i>	<i>12.9</i>	<i>10.1</i>	<i>10.8</i>	<i>7.2</i>	<i>9.7</i>		
EBITDA	43,801	40,984	41,524	42,862	44,087	2.9	0.7
<i>EBITDA margin (%)</i>	<i>37.3</i>	<i>38.4</i>	<i>38.5</i>	<i>39.3</i>	<i>45.9</i>		
Depreciation and amortisation	60,388	59,757	60,286	58,241	58,101	(0.2)	(3.8)
EBIT	(16,587)	(18,773)	(18,762)	(15,379)	(14,014)		
Interest	41,770	38,039	47,002	47,874	47,066	(1.7)	12.7
Other income	1,662	553	393	394	402		
PBT	(56,695)	(56,259)	(65,371)	(62,859)	(60,678)		
Share of profits(losses) in JV	678	889	857	570	(2)		
Provision for tax	(991)	(2)	(3)	(3)	(195)		
<i>Effective tax rate</i>	<i>1.7</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.3</i>		
Exceptional gain/ (loss)	(61,409)	(1,99,232)	(7,671)	16,965	(9,743)		
Net income (reported)	(1,16,435)	(2,54,600)	(72,182)	(45,321)	(70,228)		
EPS (Rs)	(4.1)	(8.9)	(2.5)	(1.6)	(2.4)		

Source: Company data, I-Sec research

Table 2: Mobile services KPIs – ARPU dipped 11.6% QoQ on 9.6% QoQ impact from nil IUC revenue

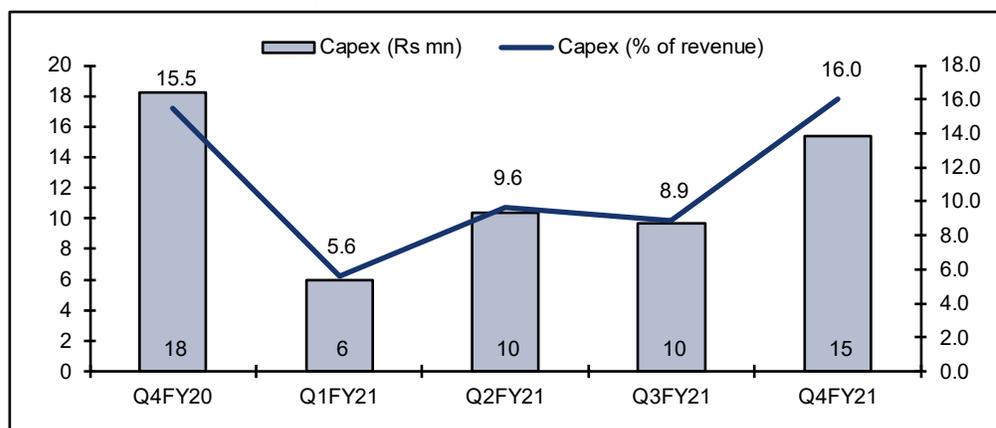
	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ (%)	YoY (%)
Subscribers (mn)	291	280	272	270	268	(0.7)	(8.0)
<i>Net adds (mn)</i>	(13)	(11)	(8)	(2)	(2)		
Prepaid subs as % of total	92.1	92.3	92.2	92.3	92.2		
Blended churn (%)	3.3	2.0	2.6	2.3	3.0		
ARPU (Rs)	121	114	119	121	107	(11.6)	(11.6)
Minutes of Use (min/subs)	688	678	673	673	657	(2.4)	(4.5)
Minutes on Network (mn)	6,15,684	5,78,548	5,55,000	5,46,900	5,29,000	(3.3)	(14.1)
<i>Incremental mins (QoQ, mn)</i>	(8,605)	(37,136)	(23,548)	(8,100)	(17,900)		
2G cell sites	1,85,544	1,81,229	1,80,084	1,80,226	1,80,484	0.1	(2.7)

Source: Company data, I-Sec research

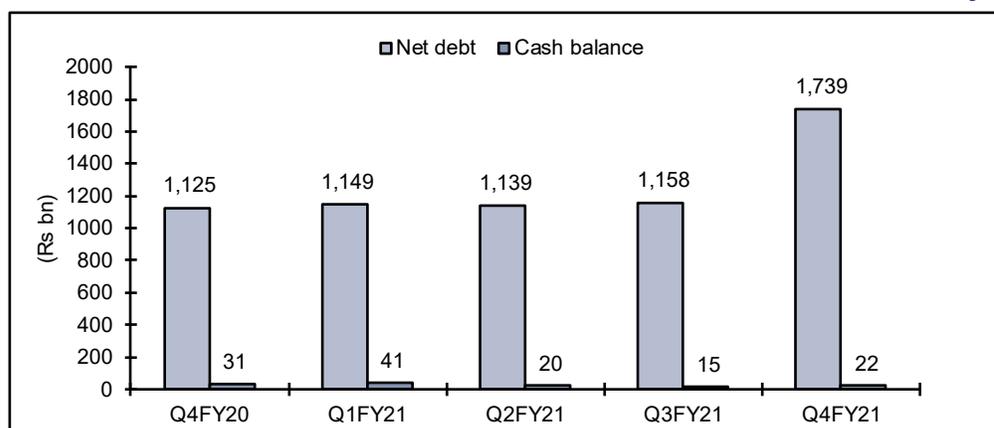
Table 3: Data services KPIs – 4G data subs increased by 4.2mn QoQ

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ (%)	YoY (%)
Data (2G+3G+4G)							
Data subs (mn)	140	136	138	138	140	1.7	0.3
<i>Net adds (mn)</i>	(2.5)	(3.8)	1.8	0.1	2.3		
<i>As % of total subs</i>	47.9	48.5	50.6	51.0	52.2		
Data volume (mn MB)	40,90,337	45,22,721	43,40,000	44,89,000	48,56,000	8.2	18.7
Data usage per sub (MB)	11,462	13,124	11,978	12,288	13,068	6.3	14.0
3G/4G data subs (mn)	117.4	116.4	119.8	120.8	123.6	2.3	5.3
<i>Net adds (mn)</i>	(1.0)	(1.0)	3.4	1.0	2.8		
<i>As % of total subs</i>	40.3	41.6	44.1	44.8	46.2		
4G data subs (mn)	105.6	104.6	106.1	109.7	113.9	3.8	7.9
<i>Net adds (mn)</i>	1.4	(1.0)	1.5	3.6	4.2		
3G/4G Cell sites	4,36,006	4,46,131	4,57,386	4,47,936	4,52,650	1.1	3.8
<i>Net adds (3G/4G cell sites)</i>	18,645	10,125	11,255	(9,450)	4,714		

Source: Company data, I-Sec research

Chart 1: Capex intensity at 16% of revenues in Q4FY21

Source: Company data, I-Sec research

Chart 2: Net debt rose Rs580bn to Rs1,739bn on inclusion of AGR liability

Source: Company data, I-Sec research

Table 4: Earnings revision

	Revised		Earlier		% change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
KPIs						
Subs (mn)	278	284	286	292	(2.9)	(2.8)
ARPU (Rs)	126	141	133	153	(5.0)	(7.8)
Financial (Rs mn)						
Revenue	4,34,509	4,98,620	4,69,424	5,53,686	(7.4)	(9.9)
EBITDA	2,05,919	2,52,708	2,32,380	2,95,224	(11.4)	(14.4)
EBITDA margin (%)	47.4	50.7	49.5	53.3		
PAT	(2,10,953)	(1,75,871)	(2,06,314)	(1,39,125)		
EPS (Rs)	(7.3)	(6.1)	(7.2)	(4.8)		

Source: Company data, I-Sec research

Table 5: VIL's SoTP-based valuation

	FY23E
EBITDA (adjusted for Ind-AS116 impact)	1,66,226
<i>EV/EBITDA multiple</i>	13.3
Enterprise value	22,10,805
Net debt	20,60,304
Equity value	1,50,501
No of outstanding shares (mn)	28,735
Value per share	5

Source: Company data, I-Sec research

Financial summary

Table 6: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Income (Sales)	4,49,575	4,19,522	4,34,509	4,98,620
Operating Expenses	3,00,450	2,50,065	2,28,590	2,45,911
EBITDA	1,49,125	1,69,457	2,05,919	2,52,708
% margins	33.2	40.4	47.4	50.7
Depreciation & Amortisation	2,43,564	2,36,385	2,22,747	2,18,991
Net Interest	1,53,920	1,79,981	1,95,955	2,11,508
Other Income	13,946	4,056	1,829	1,921
Recurring PBT	(2,34,413)	(2,42,853)	(2,10,953)	(1,75,871)
Add: Extraordinaries	(3,83,557)	(1,99,681)	-	-
Less: Taxes	1,20,811	(203)	-	-
- Current tax	1,20,811	(203)	-	-
- Deferred tax				
Less: Minority Interest				
Net Income (Reported)	(7,38,781)	(4,42,331)	(2,10,953)	(1,75,871)
Recurring Net Income	(6,17,970)	(2,42,650)	(2,10,953)	(1,75,871)

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	3,79,638	3,53,779	3,26,006	3,65,214
of which cash & cash eqv.	26,630	22,165	6,330	20,680
Total Current				
Liabilities & Provisions	10,59,404	6,56,080	6,16,229	6,14,579
Net Current Assets	(6,79,766)	(3,02,301)	(2,90,223)	(2,49,365)
Investments	19,792	41	41	41
of which				
Strategic/Group	15,244	41	41	41
Other Marketable	4,548	-	-	-
Net Fixed Assets	18,69,746	16,80,963	16,17,931	15,61,203
Goodwill	-	-	-	-
Total Assets	12,09,772	13,78,703	13,27,750	13,11,879
Liabilities				
Borrowings	11,49,955	17,60,984	19,20,984	20,80,984
Deferred tax liability	18	(1)	(1)	(1)
Minority Interest				
Equity Share Capital	2,87,354	2,87,354	2,87,354	2,87,354
Face Value per share (Rs)	10.0	10.0	10.0	10.0
				(10,56,45)
Reserves & Surplus	(2,27,555)	(6,69,634)	(8,80,587)	8)
Net Worth	59,799	(3,82,280)	(5,93,233)	(7,69,104)
Total Liabilities	12,09,772	13,78,703	13,27,750	13,11,879

Source: Company data, I-Sec research

Table 8: Quarterly trend

(Rs mn, year ending March 31)

	Jun-20	Sep-20	Dec-20	Mar-21
Net sales	1,06,593	1,07,912	1,08,941	96,076
% growth (YoY)	(5.4)	(0.5)	(1.8)	(18.3)
EBITDA	40,984	41,524	42,862	44,087
Margin (%)	38.4	38.5	39.3	45.9
Other income	553	393	394	402
Add: Extraordinaries	(1,99,232)	(7,671)	16,965	(9,743)
Net profit	(2,54,600)	(72,182)	(45,321)	(70,228)

Source: Company data

Table 9: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	1,65,730	1,70,842	2,05,919	2,52,708
Working Capital chgs	(92,455)	(14,445)	(27,913)	(26,508)
Capital Commitments	(83,640)	(52,844)	(1,00,000)	(1,00,000)
Free Cashflow	(10,365)	1,03,553	78,006	1,26,200
Cashflow from Investing Activities	55,742	63,595	1,829	1,921
Issue of Share Capital	2,49,164	-	-	-
Inc (Dec) in Borrowings	(80,826)	(43,503)	1,60,000	1,60,000
	(2,18,525)	(1,23,811)		
Other))	(2,55,670)	(2,73,771)
Dividend paid	-	-	-	-
Extraordinary Items				
Chg. in Cash & Bank balance	(4,810)	(166)	(15,835)	14,350

Source: Company data, I-Sec research

Table 10: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (in Rs)				
Recurring EPS	(25.7)	(15.4)	(7.3)	(6.1)
Reported EPS	(21.5)	(8.4)	(7.3)	(6.1)
Recurring Cash EPS	(13.0)	(0.2)	0.4	1.5
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	2.1	(13.3)	(20.6)	(26.8)
Growth Ratios (%)				
Operating Income	(7.3)	(6.7)	3.6	14.8
EBITDA	268.8	13.6	21.5	22.7
Recurring Net Income	na	na	na	na
Diluted Recurring EPS	na	na	na	na
Diluted Recurring CEPS	na	(98.3)	(288.2)	265.6
Valuation Ratios (x)				
P/E	(0.4)	(0.6)	(1.4)	(1.6)
P/CEPS	(0.8)	(45.6)	24.2	6.6
P/BV	4.8	(0.7)	(0.5)	(0.4)
EV / EBITDA	9.4	11.9	10.7	9.3
EV / Operating Income	3.1	4.8	5.1	4.7
EV / Operating FCF	19.2	12.9	12.4	10.4
Operating Ratios				
Other Income / PBT (%)	(5.9)	(1.7)	(0.9)	(1.1)
Effective Tax Rate (%)	(51.5)	0.1	-	-
NWC / Total Assets (%)	(56.2)	(21.9)	(21.9)	(19.0)
Inventory Turnover (days)	0.0	0.0	0.0	0.0
Receivables (days)	21.8	20.8	19.8	18.8
Payables (days)	115.5	106.5	97.5	94.5
Net Debt/EBITDA Ratio (x)	10.3	9.3	8.2	7.6
Capex % of sales	11.2	23.0	20.1	18.2
Profitability Ratios (%)				
Recurring Net Income Margins	(137.5)	(57.8)	(48.5)	(35.3)
RoCE	(5.2)	(1.2)	2.6	5.5
RoC	(5.3)	(1.3)	2.6	5.6
RoNW	na	na	na	na
Dividend Yield	-	-	-	-
EBITDA Margins	33.2	40.4	47.4	50.7

Source: Company data, I-Sec research

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