

June 11, 2018

IDEA CELLULAR LIMITED (ICL): CARE revises rating for Non-Convertible Debenture issues from existing rating 'CARE AA+ (Double A Plus); [Revised from CARE AA+ Double A Plus] to (CARE AA; Double A).

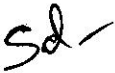
Credit Analysis & Research Limited ("CARE") has revised its rating on the Non-Convertible Debenture issues from existing rating 'CARE AA+ (Double A Plus); [Revised from CARE AA+ Double A Plus] to (CARE AA; Double A) of IDEA Cellular Limited.

Credit Rating Agency	Type of Credit Rating	Existing Rating/Outlook	Revised Rating/Outlook
CARE	Non-Convertible Debentures	CARE AA+ (Double A Plus) Credit Watch with developing implications	CARE AA (Double A) Continues on Credit Watch with developing implications.

Please find attached herewith the Press Release from CARE for perusal and record.

This is for your information and records.

For IDBI Trusteeship Services Limited



Authorized Signatory

Idea Cellular Limited
June 08, 2018

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹⁴	Remarks
Long-term Bank Facilities	26,300.46	CARE AA (Double A) (Credit Watch with Developing Implications)	Revised from CARE AA+(Double A Plus); Continues on Credit Watch with Developing Implications
Total Bank Facilities	26,300.46 (Rupees Twenty Six Thousand Three Hundred Crore Forty Six lakhs only)		
Non-Convertible Debenture (NCD) issue	8,000 (Rupees Eight Thousand crore only)	CARE AA (Double A) (Credit Watch with Developing Implications)	Revised from CARE AA+(Double A Plus); Continues on Credit Watch with Developing Implications
Commercial Paper (CP) Issue	2,000 (Rupees Two Thousand crore only)	CARE A1+ (A One Plus) (Credit Watch with Developing Implications)	Continues on Credit Watch with Developing Implications

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings of the bank facilities/instruments of Idea Cellular Limited (Idea) factors in the decline in its operational and financial risk profile due to persistent severe competitive intensity in the sector. The ratings continue to remain on 'Credit Watch with Developing Implications' due to the proposed merger of Idea and the wireless telephony businesses of Vodafone (India). CARE is closely monitoring the developments on the merger transaction and would take a view on the ratings post the conclusion of the merger and after analyzing the impact of the same on the business and financial profile of Idea.

The ratings however continue to derive strength from the notable parentage (viz, Aditya Birla group) translating in substantial financial flexibility, professional management team with considerable experience in the telecom sector, pan-India presence with high brand recognition of 'Idea', robust spectrum profile laying foundation for revenue visibility and strong market position in its established service areas. Also, Idea has a strong liquidity profile characterized by low utilizations of working capital borrowings thereby providing cushion for any contingencies.

The rating positively factors infusion of funds of Rs.6,750 crore (Rs.3,250 crore by the promoters as equity share capital and Rs.3,500 crore form QIP issue) in Feb 2018 and monetization of standalone tower assets for Rs. 4,000 crore in May 2018 thereby enhancing the ability of the company to further strengthen its network and meet its capex requirements.

The aforementioned rating strengths are partially offset by increased debt level of Idea to fund spectrum acquisitions, regulatory uncertainties surrounding the Indian telecom sector and highly competitive nature of the industry. However, the change in the competitive landscape had also accelerated the consolidation in the Indian telecom segment which has given an opportunity to the large players like Idea to further increase its market share.

Idea's ability to timely complete the proposed merger with Vodafone (India), increase its market share and improve its key performance indicators in the face of intensifying competition remains the key rating sensitivity. Idea's credit profile is also sensitive to any adverse impact of competitive intensity, regulatory changes and technology changes in the sector.

¹⁴ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Merger of Idea and Vodafone

Idea had announced merger with Vodafone Plc's Indian wireless telephone business which is expected to complete during calendar year 2018 and till then, both the brands will continue to operate as separate entities with distinct product offerings. The merger is expected to improve the operational efficiencies over next four to five years, led by synergies and scale benefits which are expected to improve the profitability of the combined entity. Furthermore, expected reduction in capex requirement and tower sale is likely to improve the debt profile going forward. However, the timely completion of the merger process considering the regulatory challenges and pending approvals are critical from the credit perspective.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and experienced management: Idea is a part of USD 40 billion Aditya Birla group, which is one of the largest and oldest corporate houses in India and well-known across the entire globe. The group, led by Mr. Kumar Mangalam Birla who is also the Chairman of Idea, enjoys a leading presence across several sectors including metals, cement, telecom, financial services, textiles and other manufacturing industries in the country. By virtue of being a part of the Aditya Birla group, the company has qualified, professional and experienced management team with significant experience in the telecom sector. Moreover, Idea enjoys strong financial flexibility being a prominent company of the Aditya Birla group. Also as per the terms of the proposed merger with Vodafone, Mr. Kumar Mangalam Birla would be the Chairman of the merged entity.

Infusion of funds and monetization of standalone tower business: In Feb 2018, Rs. 6,750 crore were infused in the company (Rs.3,250 crore by the promoters as equity capital and Rs.3,500 crore from QIP issue). Also, in May 2018; Idea sold its standalone tower business to ATC for Rs.4,000 crore. The infusion of funds and monetization of assets had enhanced the ability of the company to further strengthen its network and meet its capex requirements.

Pan-India player with strong brand recognition: As on March 31, 2018; Idea provides GSM-based mobile telecom services and broadband services in all 22 service areas in India. Idea owns 3G spectrum in 15 service areas [provides 3G services in 21 circles including intra circle roaming arrangement] and owns 4G spectrum in 20 service areas. Idea owns 74 broadband carriers to cater its growing broadband data customer's base. The population under broadband (3G+4G) sites has increased from ~480 million in Q4FY17 to ~650 million in Q4FY18. The 4G spectrum profile of Idea covers nearly 97% of its own revenue and 93% of industry revenue (on AGR basis) as on March 31, 2018. Due to very noticeable and memorable advertising, the company has been able to establish a strong brand recall. The brand 'Idea' is often ranked among India's buzziest brands across telecom and non-telecom categories. The strong brand recognition helps the company to maintain its market position in the hyper competitive Indian telecom industry.

Strong spectrum profile laying foundation for revenue visibility: As on March 31, 2018; Idea has a total of 891.2 MHz spectrum across 22 circles of which 824 MHz has been acquired in the auctions held in the last 7 years while 67.2 MHz is administratively allocated (1800 MHz). The spectrum acquired through auctions is liberalized and can be used towards deployment of any technology. With acquisition of 7 new licenses in Nov 2012 auction and renewal of 900 MHz in nine service areas in Mar 2015 auctions, Idea has achieved renewal in 16 out of 22 service areas, laying solid foundation for growth of business till year 2035 (2032 for 7 licenses).

Key Rating Weaknesses

Intense competition impacting the Key performance indicators

On account of the new entrant in the Indian telecom segment offering services at low cost, the competition in the industry had intensified leading to decline in realizations. Idea's monthly Average Revenue per User (ARPU) declined from Rs.142 in Q4FY17 to Rs.105 in Q4FY18. Although, the subscriber base of Idea increased in FY18 on y-o-y basis from 189.5 million as on March 31, 2017 to 194.5 million as on March 31, 2018, the lower incremental subscribers and lower ARPUs has impacted the growth in income and profitability of Idea. During FY18, Idea income from operations declined by around 21% on y-o-y basis and the company continued to report losses at the PAT level (Rs.831 crore loss in FY17 and Rs.4,781 crore loss in FY18). The realizations are likely to moderate further considering the decline in IUC (Inter-connect Usage Charges) charges in the domestic market from 14paise/min to 6paise/min effective from October 1, 2017 and the decline in International Mobile Termination settlement charges from 53 paisa to 30 paisa per minute (effective from

February 1, 2018). However, the operational efficiencies and market share for Idea are likely to increase in the long term with the proposed merger of Idea and Vodafone (India) expected to be completed in CY18.

Increased debt level; but repayments spread over a long period

ICL has high quantum of debt levels majority of which is in the form of deferred payment loan from DOT (Department of Telecom) availed for acquiring spectrum. However, the repayments are scheduled over a longer period of time leading to comfortable DSCR. During FY18, Idea incurred capex of Rs.7,000 crore majority of which was utilized for 4G expansion. Also, the liquidity position of Idea is comfortable characterized by strong cash accruals, high levels of unencumbered cash and & cash equivalent (Rs.5,660 crore as on March 31, 2018) and lower working capital utilizations which provides cushion to meet any contingencies. Furthermore, being part of Aditya Birla group, Idea enjoys substantial financial flexibility.

Industry outlook

India continues to be one of the fastest growing mobile phone markets in the world. However, the increase in subscribers have not brought proportionate incremental revenue to the telecom players on account of intense competition in the sector which had led to limited scope for increasing the tariffs. Also, the telecom sector in India is also surrounded by regulatory uncertainties and Idea remains susceptible to adverse regulatory changes.

Analytical approach: Standalone

Applicable Criteria

Rating Methodology - Infrastructure Sector

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

Financial ratios - Non-Financial sector

About the Company

Idea established in 1995, part of the USD 40 billion Aditya Birla Group is the third largest mobile telecom operator in India, having pan-India operations, offering voice, data and other value added services (VAS). During FY18, Idea had added 5.5 million subscribers with a total subscriber base of 194.5 million as on March 31, 2018. As on March 31, 2018; Idea provides GSM-based mobile telecom services in all 22 service areas in India and owns 3G spectrum in 15 service areas [provides 3G services in 21 circles including intra circle roaming arrangement]. On 4G front, Idea has rolled out 4G services in 20 Service Areas. Following table shows the key financials of Idea (standalone):

Brief Financials (Rs. crore)	FY17 (Audited)	FY18 (Audited)*
Total operating income	35,311	28,127
Profit Before Interest Lease Depreciation Tax (PBILDT)	10,108	5,943
Profit After Tax (PAT)	(834)	(4,753)
Gross Cash Accruals (GCA)	6,281	3,563
Overall Gearing	2.36	2.26
Interest Coverage	2.50	1.21

**Based on abridged financials shared by Idea on BSE (Bombay Stock Exchange).*

Status of non-cooperation with previous CRA: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact

Name: Mr Anilkumar Maheshwari

Tel: 022- 67543549

Email: anilkumar.maheshwari@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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	-	-	-	16067.70	CARE AA (Under Credit watch with Developing Implications)
Term Loan-Long-term	-	-	June 30, 2026	8,345.76	CARE AA (Under Credit watch with Developing Implications)
Fund-based - LT-Bank Overdraft	-	-	-	1887.00	CARE AA (Under Credit watch with Developing Implications)
Debentures-Non Convertible Debentures	October 31, 2012	9.45%	October 31, 2019	396.00	CARE AA (Under Credit watch with Developing Implications)
Debentures-Non Convertible Debentures	December 13, 2016	7.57%	December 13, 2021	1,500.00	CARE AA (Under Credit watch with Developing Implications)
Debentures-Non Convertible Debentures	January 4, 2017	7.77%	January 4, 2022	1,000.00	CARE AA (Under Credit watch with Developing Implications)
Debentures-Non Convertible Debentures	January 17, 2017	7.77%	January 17, 2022	500.00	CARE AA (Under Credit watch with Developing Implications)
Debentures-Non Convertible Debentures	January 27, 2017	8.04%	January 27, 2022	2,000.00	CARE AA (Under Credit watch with Developing Implications)

Debentures-Non Convertible Debentures	January 31, 2017	8.03%	January 31, 2022	500.00	CARE AA (Under Credit watch with Developing Implications)
Debentures-Non Convertible Debentures	February 14, 2017	8.03%	February 14, 2022	500.00	CARE AA (Under Credit watch with Developing Implications)
Debentures-Non Convertible Debentures	February 8, 2017	8.12%	February 8, 2024	5.00	CARE AA (Under Credit watch with Developing Implications)
Proposed Debentures-Non-Convertible Debentures	-	-	-	1,599	CARE AA (Under Credit watch with Developing Implications)
Commercial Paper	-	-	7 days to 364 days	2,000.00	CARE A1+ (Under Credit watch with Developing 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - LT-Bank Guarantees	LT	16067.70	CARE AA (Under Credit watch with Developing Implications)	-	1)CARE AA+ (Under Credit watch with Developing Implications) (14-Dec-17) 2)CARE AA+ (Under Credit watch with Developing Implications) (10-Nov-17)	1)CARE AA+ (Under Credit watch with Developing Implications) (24-Mar-17) 2)CARE AA+ (Under Credit watch with Developing Implications) (10-Mar-17) 3)CARE AA+ (Under Credit watch with Developing Implications) (06-Feb-17) 4)CARE AA+; Negative (25-Jan-17) 5)CARE AA+ (15-Jul-16)	1)CARE AA+ (09-Jul-15)
2.	Term Loan-Long Term	LT	8345.76	CARE AA (Under Credit watch with Developing Implications)	-	1)CARE AA+ (Under Credit watch with Developing Implications)	1)CARE AA+ (Under Credit watch with Developing Implications)	1)CARE AA+ (09-Jul-15)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
						(14-Dec-17) 2)CARE AA+ (Under Credit watch with Developing Implications) (10-Nov-17)	(24-Mar-17) 2)CARE AA+ (Under Credit watch with Developing Implications) (10-Mar-17) 3)CARE AA+ (Under Credit watch with Developing Implications) (06-Feb-17) 4)CARE AA+; Negative (25-Jan-17) 5)CARE AA+ (15-Jul-16)	
3.	Fund-based - LT-Bank Overdraft	LT	1887.00	CARE AA (Under Credit watch with Developing Implications)	-	1)CARE AA+ (Under Credit watch with Developing Implications) (14-Dec-17) 2)CARE AA+ (Under Credit watch with Developing Implications) (10-Nov-17)	1)CARE AA+ (Under Credit watch with Developing Implications) (24-Mar-17) 2)CARE AA+ (Under Credit watch with Developing Implications) (10-Mar-17) 3)CARE AA+ (Under Credit watch with Developing Implications) (06-Feb-17) 4)CARE AA+; Negative (25-Jan-17) 5)CARE AA+ (15-Jul-16)	1)CARE AA+ (09-Jul-15)
4.	Debentures-Non Convertible Debentures	LT	8000.00	CARE AA (Under Credit watch with Developing Implications)	-	1)CARE AA+ (Under Credit watch with Developing Implications)	1)CARE AA+ (Under Credit watch with Developing Implications)	1)CARE AA+ (09-Jul-15)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
						(10-Nov-17)	(24-Mar-17) 2) CARE AA+ (Under Credit watch with Developing Implications) (06-Feb-17) 3) CARE AA+ (Under Credit watch with Developing Implications) (06-Feb-17) 4) CARE AA+; Negative (25-Jan-17) 5) CARE AA+ (26-Dec-16) 6) CARE AA+ (06-Dec-16) 7) CARE AA+ (15-Jul-16)	
5.	Commercial Paper	ST	2000.00	CARE A1+ (Under Credit watch with Developing Implications)	-	1) CARE A1+ (Under Credit watch with Developing Implications) (10-Nov-17)	1) CARE A1+ (Under Credit watch with Developing Implications) (24-Mar-17) 2) CARE A1+ (Under Credit watch with Developing Implications) (06-Feb-17) 3) CARE A1+ (25-Jan-17) 4) CARE A1+ (15-Jul-16)	1) CARE A1+ (03-Feb-16) 2) CARE A1+ (09-Jul-15) 3) CARE A1+ (14-May-15)