

September 12, 2018

Vodafone Idea Limited (VIL) FKA Idea Cellular Limited: CARE revises rating outlook on the Non-Convertible Debenture issues from 'CARE AA (Double A)' under credit watch with developing implications to 'CARE AA (Double A)'; Negative

Credit Analysis & Research Limited ("CARE") has revised its rating outlook on the Non-Convertible Debenture issues from 'CARE AA (Double A)' under credit watch with developing implications to 'CARE AA (Double A)'; Negative.

The details regarding the revision in the rating outlook are enclosed herewith.

IDBI Trusteeship Services Limited

Sd/-

Authorised Signatory

Encl: As Above

Vodafone Idea Limited

September 11, 2018

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ^a	Remarks
Long-term Bank Facilities	30,377.34	CARE AA (Double A); Outlook : Negative	Reaffirmed, Credit Watch removed and assigned Negative Outlook
Total Bank Facilities	30,377.34 (Rupees Thirty Thousand Three Hundred Seventy Seven Crore Thirty Four lakhs only)		
<u>Non-Convertible Debenture (NCD) issue</u>	8,401 (Rupees Eight Thousand four hundred and one crore only)	CARE AA (Double A); Outlook : Negative	Reaffirmed, Credit Watch removed and assigned Negative Outlook
Commercial Paper (CP) Issue	2,000 (Rupees Two Thousand crore only)	CARE A1+ (A One Plus)	Reaffirmed and Credit Watch removed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings on the bank facilities/instruments of Idea Cellular Limited (Idea) were placed on 'Credit Watch with Developing Implications' on February 6, 2017 following the announcement of merger of Idea and the wireless telephony businesses of Vodafone India Limited (Vodafone).

The rating has been removed from 'Credit Watch with Developing Implications' and has been assigned **Negative Outlook**. The watch has been resolved following completion of the merger of Idea and VIL and clarity from the management with regards to debt levels of the combined entity and expected synergies with timelines from the merger. The merged entity has been named as **Vodafone Idea Limited (VIL)**.

The ratings derive strength from the strong sponsors (viz, Aditya Birla Group and Vodafone Group PLC) translating in substantial financial flexibility, professional management team with considerable experience in the telecom sector, pan-India presence with high brand recognition of 'Idea' and 'Vodafone', robust spectrum profile laying foundation for revenue visibility and strong market revenue market share in the telecom segment.

The rating positively factors infusion of funds by Idea and Vodafone of Rs.6,750 crore and Rs.8,600 crore respectively (as equity shares/QIP) coupled with monetization of assets of standalone tower assets of both companies (Idea and Vodafone) for an enterprise value of Rs.7,850 crore thereby enhancing the liquidity profile of the company and ability of the company to further strengthen its network and meet its capex requirements.

The aforementioned rating strengths are partially offset by decline in the operational and financial risk profile of VIL due to persistent severe competitive intensity in the sector, increased debt level of VIL to fund spectrum acquisitions, regulatory uncertainties surrounding the Indian telecom sector. 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 VIL to further increase its market share.

VIL's ability to increase its market share, improve its key performance indicators in the face of intensifying competition and timely realizations of the expected merger synergies remains the key rating sensitivity. VIL's credit profile is also sensitive to any adverse impact of competitive intensity, regulatory changes and technology changes in the sector.

Outlook: Negative

The outlook is 'Negative' on account of the impact on the credit profile of VIL due to the intense competition in the telecom industry.

The outlook may be revised to 'Stable' if VIL is able to withstand the competition in a more resilient manner and demonstrate improvement in its key operational performance indicators, revenue profile and profitability while maintaining its capital structure and favorable liquidity risk profile.

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

Detailed description of the key rating drivers

Key Rating Strengths

Strong sponsors 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. Also, Mr. Kumar Mangalam Birla heads as the Chairman of the merged entity.

Vodafone Group is one of the world's largest telecommunications companies and provides a range of services including voice, messaging, data and fixed communications. Vodafone Group has mobile operations in 25 countries, partners with mobile networks in 46 more, and fixed broadband operations in 18 markets. As of 30 June 2018, Vodafone Group had 534.5 million mobile customers and 19.9 million fixed broadband customers, including India and all of the customers in Vodafone's joint ventures and associates.

By virtue of being a part of the Aditya Birla Group and Vodafone Group, VIL has qualified, professional and experienced management team with significant experience in the telecom sector. VIL Board of Directors comprises of 12 Directors (including 6 Independent Directors) constituted, with Mr. Kumar Mangalam Birla as the Chairman. Mr. Balesh Sharma is appointed as the CEO. Moreover, VIL enjoys strong financial flexibility being a prominent company of the Aditya Birla Group and Vodafone Group Plc.

Infusion of funds and monetization of standalone tower business: Shareholders of both the companies (Idea and Vodafone) have infused funds of Rs.6,750 crore and Rs.8,600 crore respectively (as equity shares/QIP) coupled with monetization of assets of standalone tower assets of both companies (Idea and Vodafone) for an enterprise value of Rs.7,850 crore thereby enhancing the liquidity profile of the company and ability of the company to further strengthen its network and meet its capex requirements. CARE will closely monitor the support from both the sponsors post-merger.

Pan-India player with strong brand recognition: VIL had a subscriber base of over 443.57 million as on June 30, 2018 (Source: TRAI press release) and Revenue Market Share (on Adjusted Gross Revenues basis) of 32.2% as on June 30, 2018 (Source: VIL press release). VIL has Broadband network (3G+4G) with over 340,000 broadband sites covering 840 million Indians and voice network with over 200,000 unique GSM sites to cover over 1.2 billion Indians (92% population coverage). Further, VIL had wide distribution reach with over 1.7 million retailers and ~15,000 branded stores to service customers. Both Vodafone and Idea brands, which have strong consumer affinity across metro, urban, rural and deep interior markets, will continue to operate separately.

Strong spectrum profile and synergies expected from the merger: VIL has 1850 MHz of total spectrum holding across bands. The spectrum acquired through auctions is liberalized and can be used towards deployment of any technology. VIL's majority of the licenses expire by 2032 to 2035 thereby laying foundation for growth of business. The spectrum profile and infrastructure of VIL may lead to better customer experience even as both the companies integrates and optimizes their network in a phased manner across circles. The merger is expected to generate Rs.14,000 crore annual synergy, including opex synergy of Rs.8,400 crore. Estimated NPV of net synergies of Rs.70,000 crore over a period of four years. The amount and timeliness of the realization of synergies is a key rating monitorable.

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.105 in Q4FY18 to Rs.100 in Q1FY19. VIL's monthly ARPU declined from Rs.105 in Q4FY18 to Rs.102 in Q1FY19. The subscriber base of Idea had increased from 211.21 in Q4FY18 to 220.6 in Q1FY19. However, the subscriber base of Vodafone showed a marginal growth from 222.92 in Q4FY18 to 222.97 in Q1FY19. The lower incremental subscribers and lower ARPUs have impacted the growth in income and profitability of Idea and Vodafone. However, the operational efficiencies of VIL may improve in the long term considering the expected synergies from the merger.

Increased debt level; but repayments spread over a long period: VIL 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. Also, the liquidity position of VIL is comfortable with high levels of unencumbered cash and & cash equivalent of Rs.19,341 crore and lower working capital utilizations which provides cushion to meet any contingencies. Furthermore, being part of Aditya Birla group and Vodafone group, VIL enjoys substantial financial flexibility.

Industry outlook

The Indian telecom industry subscriber base growth has been flat. The increase in the subscriber addition of larger operators is primarily due to exit of the smaller players. 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. Development of new technologies and the rapid change in technology had led to increased challenges for the players with regards to return on investments in the current technology and additional investments in the new technology. Also, the telecom sector in India is also surrounded by regulatory uncertainties and VIL remains susceptible to adverse regulatory changes. The government reduced termination charges for domestic calls from 14 paise to 6 paise and international calls from 53 paise to 30 paise has adversely impacted profitability of large incumbent players. The ability of VIL to mitigate these risks is a key rating factor.

Analytical approach: CARE has combined the business and financial risk profile of Idea Cellular Limited (standalone) and Vodafone India Limited (Consolidated) to arrive at the ratings assigned to VIL.

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 Cellular Limited (being renamed as Vodafone Idea Limited) is an Aditya Birla Group and Vodafone Group partnership. Idea, part of the USD 40 billion Aditya Birla Group have pan-India operations, offering voice, data and other value added services (VAS).

Vodafone Group is one of the world's largest telecommunications companies and provides a range of services including voice, messaging, data and fixed communications. Vodafone Group has mobile operations in 25 countries, partners with mobile networks in 46 more, and fixed broadband operations in 18 markets.

Vodafone India Limited is India's leading telecom service provider with over 408 million customers and revenue market share of 32.2% as on June 30, 2018.

Brief Financials (Rs. crore)*	FY17 (Audited)	FY18 (Audited)
Total operating income	78,663	63,246
Profit Before Interest Lease Depreciation Tax (PBITDT)	19,537	12,026
Profit After Tax (PAT) after Discontinuing Operations	(3,311)	(8,729)
Gross Cash Accruals (GCA)	11,784	6,453
Overall Gearing	1.52	1.68
Interest Coverage	1.94	1.14

*Based on combined audited financials of Idea and Vodafone. The financials are reclassified as per CARE standards.

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.

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	-	-	-	15847.00	CARE AA; Negative
Term Loan-Long-term	-	-	June 30, 2026	13008.34	CARE AA; Negative
Fund-based - LT-Bank Overdraft	-	-	-	1522.00	CARE AA; Negative
Debentures-Non Convertible Debentures	October 31, 2012	9.45%	October 31, 2019	396.00	CARE AA; Negative
Debentures-Non Convertible Debentures	December 13, 2016	7.57%	December 13, 2021	1,500.00	CARE AA; Negative
Debentures-Non Convertible Debentures	January 4, 2017	7.77%	January 4, 2022	1,000.00	CARE AA; Negative
Debentures-Non Convertible Debentures	January 17, 2017	7.77%	January 17, 2022	500.00	CARE AA; Negative
Debentures-Non Convertible Debentures	January 27, 2017	8.04%	January 27, 2022	2,000.00	CARE AA; Negative
Debentures-Non Convertible Debentures	January 31, 2017	8.03%	January 31, 2022	500.00	CARE AA; Negative
Debentures-Non Convertible Debentures	February 14, 2017	8.03%	February 14, 2022	500.00	CARE AA; Negative
Debentures-Non Convertible Debentures	February 8, 2017	8.12%	February 8, 2024	5.00	CARE AA; Negative
Debentures-Non Convertible Debentures	September 3, 2018	10.90%	September 2, 2023	1500.00	CARE AA; Negative
Proposed Debentures-Non Convertible Debentures	-	-	-	500.00	CARE AA; Negative
Commercial Paper	-	-	7 days to 364 days	2,000.00	CARE A1+

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	15847.00	CARE AA; Negative	1)CARE AA (Under Credit watch with Developing Implications) (03-Jul-18) 2)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)	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	13008.34	CARE AA; Negative	1)CARE AA (Under Credit watch with Developing Implications) (03-Jul-18) 2)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)	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)	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
3.	Fund-based - LT-Bank Overdraft	LT	1522.00	CARE AA; Negative	1)CARE AA (Under Credit watch with Developing Implications) (03-Jul-18) 2)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)	5)CARE AA+ (15-Jul-16) 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	6401.00	CARE AA; Negative	1)CARE AA (Under Credit watch with Developing Implications) (03-Jul-18) 2)CARE AA (Under Credit watch with Developing Implications) (08-Jun-18)	1)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) (06-Feb-17) 3)CARE AA+ (Under Credit watch with Developing Implications) (06-Feb-17) 4)CARE AA+; Negative (25-Jan-17)	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
							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+	1)CARE A1+ (Under Credit watch with Developing Implications) (03-Jul-18) 2)CARE A1+ (Under Credit watch with Developing Implications) (08-Jun-18)	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)
✓ 6.	Debentures-Non Convertible Debentures	LT	2000.00	CARE AA; Negative	1)CARE AA (Under Credit watch with Developing Implications) (23-Aug-18)			