IDBI Trusteeship Services Ltd
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IDBI trustee

February 18, 2019

Vodafone Idea Limited (erstwhile IDEA CELLULAR LIMITED): CARE revises rating for Non-Convertible Debenture issues from existing rating of (CARE AA; Double A) to CARE AA-.

Credit Analysis & Research Limited ("CARE") has revised its rating on the Non-Convertible Debenture issues **from existing rating 'CARE AA (Double A) to (CARE AA-; Double A Minus)** of Vodafone Idea Limited (erstwhile IDEA Cellular Limited).

Credit Rating Agency	Type of Credit Rating	Existing Rating/Outlook	Revised Rating/Outlook
CARE	Non-Convertible Debentures	CARE AA (Double A)	CARE AA- (Double A Minus)

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

Sd/-

Authorized Signatory

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Vodafone Idea Limited
February 15, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	33923.18 (enhanced from Rs 33155.77 crore)	**CARE AA- ; Negative (Double A minus; Outlook : Negative)**	**Revised from CARE AA; Negative (Double A; Outlook : Negative)**
Short-term Bank Facilities	17242.17 (reduced from Rs 18009.57 crore)	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Bank Facilities	**51,165.35 (Rupees Fifty One Thousand One Hundred Sixty Five Crore Thirty Five lakhs only)**		
Non-Convertible Debenture (NCD) issue	8,401 (Rupees Eight Thousand four hundred and one crore only)	**CARE AA- ; Negative (Double A minus; Outlook : Negative)**	**Revised from CARE AA; Negative (Double A; Outlook : Negative)**
Commercial Paper (CP) Issue	2,000 (Rupees Two Thousand crore only)	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers
The revision in the ratings of the bank facilities/instruments of Vodafone Idea Limited (VIL) factors in the decline in its operational and financial risk profile due to persistent hyper competitiveness in the sector.

The ratings continues to 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 revenue market share in the telecom segment.

The rating positively factors infusion of funds via rights issue to the tune of ~ Rs 25000 crore (wherein Vodafone Group and the Aditya Birla Group would contribute Rs 11,000 crore and Rs 7,250 crores, respectively and even a higher amount if the issue is undersubscribed, subject to applicable law) by Q1FY20. This would enhance 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 hyper competitiveness in the sector, increased debt level of VIL and regulatory uncertainties surrounding the Indian telecom sector.

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, credit profile while maintaining its capital structure and favorable liquidity risk profile.

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

[1]*Complete definition of the ratings assigned are available at* www.careratings.com *and other CARE publications*

Mr.Kumar Mangalam Birla who is also the Chairman of Vodafone 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 44 more, and fixed broadband operations in 19 markets. 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. 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 (Vodafone Group and the Aditya Birla Group) are expected to infuse funds via rights issue by Q1FY20 coupled with Indus monetization for an enterprise value of Rs.4,960 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 387.2 million as on December, 2018. VIL has Broadband network (3G+4G) with over 376,000 broadband sites covering 833 million Indians and voice network with over 198,000 unique GSM sites to cover over 1.1 billion Indians (91% population coverage). Further, VIL had wide distribution reach with over 1.5 million retailers and ~13,000 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 operational synergy of Rs.8,400 crore. Estimated NPV of net synergies of Rs.70,000 crore over a period of four years at the time of announcement of merger. As of now, VIL has integrated 8 circles out of 22 circles and management expects to complete it by June 2020. In view of the above, the timeliness of integration and amount of synergies are key rating moniterables. In Q3FY19, operating expenses of VIL reduced to the tune of Rs 750 crores i.e annualized figure of approximately Rs 3,000 crores to Rs 3,500 Crores.

Liquidity analysis: The liquidity position of VIL is comfortable with high levels of unencumbered cash and & cash equivalent of Rs.8,904 crore as December 31, 2018 and lower working capital utilizations which provides cushion to meet any contingencies. Infusion of funds via rights issue to the tune of ~ Rs 25000 crore by Q1FY20 would further enhance the liquidity profile of the company.

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. VIL's monthly Average Revenue per User (ARPU) remained flat at Rs 89 (v/s Rs 88 in Q2FY19). VIL lost 35.1 million customers during Q3FY19 mainly on account of introduction of minimum recharge of Rs 35 and consolidation of multiple SIM users to single SIM.

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.

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 44 more, and fixed broadband operations in 19 markets.

Brief Financials (Rs. crore)*	FY17 (Audited)	FY18 (Audited)
Total operating income	78,663	63,246
Profit Before Interest Lease Depreciation Tax (PBILDT)	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 a 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.*

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****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	-	-	-	18360.18	CARE AA-; Negative
Term Loan-Long-term	-	-	June 30, 2026	14001.00	CARE AA-; Negative
Fund-based - LT-Bank Overdraft	-	-	-	1292.00	CARE AA-; Negative
Non-fund-based - ST-BG/LC	-	-	-	16887.17	CARE A1+
Fund-based - ST-Term loan	-	-	-	355.00	CARE A1+
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	18630.18	CARE AA-; Negative	1)CARE AA; Negative (26-Nov-18) 2)CARE AA; Negative (13-Nov-18) 3)CARE AA; Negative (26-Sep-18) 4)CARE AA; Negative (11-Sep-18) 5)CARE AA (Under Credit watch with Developing Implications) (03-Jul-18) 6)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	14001.00	CARE AA-; Negative	1)CARE AA; Negative (26-Nov-18) 2)CARE AA; Negative (13-Nov-18) 3)CARE AA; Negative (26-Sep-18) 4)CARE AA; Negative (11-Sep-18) 5)CARE AA (Under Credit watch with Developing Implications) (03-Jul-18) 6)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)
3.	Fund-based - LT-	LT	1292.00	CARE AA-;	1)CARE AA;	1)CARE AA+	1)CARE AA+	1)CARE

	Bank Overdraft			Negative	Negative (26-Nov-18) 2)CARE AA; Negative (13-Nov-18) 3)CARE AA; Negative (26-Sep-18) 4)CARE AA; Negative (11-Sep-18) 5)CARE AA (Under Credit watch with Developing Implications) (03-Jul-18) 6)CARE AA (Under Credit watch with Developing Implications) (08-Jun-18)	(Under Credit watch with Developing Implications) (14-Dec-17) 2)CARE AA+ (Under Credit watch with Developing Implications) (10-Nov-17)	(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)	AA+ (09-Jul-15)
4.	Debentures-Non Convertible Debentures	LT	6401.00	CARE AA-; Negative	1)CARE AA; Negative (26-Nov-18) 2)CARE AA; Negative (13-Nov-18) 3)CARE AA; Negative (11-Sep-18) 4)CARE AA (Under Credit watch with Developing Implications) (03-Jul-18) 5)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) 5)CARE AA+ (26-Dec-16) 6)CARE AA+ (06-Dec-16) 7)CARE AA+ (15-Jul-16)	1)CARE AA+ (09-Jul-15)
5.	Commercial Paper	ST	2000.00	CARE A1+	1)CARE A1+ (26-Nov-18) 2)CARE A1+ (13-Nov-18) 3)CARE A1+ (11-Sep-18) 4)CARE A1+	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+	1)CARE A1+ (03-Feb-16) 2)CARE A1+ (09-Jul-15)