

RATING RATIONALE

8 Nov 2019

Vodafone Idea Ltd

Brickwork Ratings revises the rating for the NCD Issues aggregating ₹2500 Crores of Vodafone Idea Ltd and places the Rating under Watch with Negative Implications and withdraws the rating for the CP Issue of ₹ 2000 Crores.

Particulars

Instrument**	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present@		Previous (July 2019)	Present
Multiple NCDs	3500	2500	Long Term	BWR A+ Negative	BWR A- Rating Watch with Negative Implications
CP Issue	2000	Nil	Short Term	BWR A1+	Withdrawn
Total	5500	2500	INR Two Thousand and Five Hundred Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

@ The rating amount for the NCDs has come down as out of 4 NCD Issues aggregating Rs. 3500 Crs, one NCD Issue of Rs. 1000 Crs stands completely redeemed.

** Details of Instruments are provided in Annexure-I

Rating Action / Outlook

The rating for the CP Issue has been withdrawn on the request of the company as they have not raised any amount against the said issue.

The rating for the NCD Issues has been revised and placed on watch with negative implications in view of the recent ruling by the Supreme Court of India pertaining to the AGR (Adjusted Gross Revenue) matter which is expected to put pressure on the company's liquidity position and the continued deterioration in the company's subscriber base as well as market share. In its judgement, the Supreme Court has upheld the demand of Department of Telecommunications (DoT) to include the income generated from non-core activities in the calculation of AGR. Based on the said method, DoT has submitted an estimate of Rs. 28309 Crores to be paid by VIL for which the Supreme Court has given a period of three months to deposit. While, the telcos have been pushing for some relief from the Government by way of waiver of interest and penalties or deferment in the payment of spectrum dues, the Government is yet to take a decision on the same and accordingly, the rating has been placed under watch with negative implications.

The rating is also impacted by postponement of sale of stake in Indus Towers Ltd. Since, all the conditions precedent to the merger of Indus Towers Ltd with Bharti Infratel Ltd have not yet been fulfilled, the long stop date has been shifted by two months to Dec 24, 2019 from Oct 24, 2019. In line

with the postponement of stake sale, the company expects to generate lower cash from the monetization in comparison with ~ Rs. 6000 Crs highlighted earlier.

In addition, the rating continues to remain constrained on account of continuous loss of subscriber base & market share, risk of acceleration of repayment, intense competition in the sector and regulatory and technological risks associated with the sector.

These constraints are partially offset by the backing of strong promoter groups i.e. Aditya Birla Group & Vodafone Group, presence of two strong brands - Vodafone and Idea, faster pace of network integration and pan-India operations of the company.

Key Rating Drivers

Credit Risks:

Supreme Court Ruling in the AGR Matter: The Supreme Court of India gave a ruling in favour of DoT on Oct 24, 2019 pertaining to the calculation of AGR wherein the Court has allowed inclusion of revenue from non-core activities also in the calculation. As per the demand of DoT, it is liable to receive an amount of Rs. 28309 Crs from VIL based on the said judgement. The Supreme Court has given a period of three months to the telcos to comply with the order. While, the incumbents have been requesting for some relief to improve the overall situation of the telecom sector, the Government is yet to indicate their stance on the matter and the absence of any such relief may deteriorate the financial risk profile of VIL. Media reports have however, mentioned that the Government has formed a Committee of Secretaries to study the current situation of the telecom sector and come up with suggestions for a bailout package. Any announcement from the Government providing or denying relief to the sector is a key rating monitorable.

Postponement of Liquidation of Stake in Indus Towers Ltd: VIL in its submission to the Stock Exchanges has informed that due to delay in fulfilling all the conditions precedent to the merger of Indus Towers with Bharti Infratel before the original long stop date of Oct 24, 2019, the concerned parties have now entered into an agreement to postpone the long stop date to Dec 24, 2019. Owing to the delay and movement in the share price of Bharti Infratel, VIL is expected to receive a relatively lower amount from the monetization. Further, as the approval from DoT is also pending, there is no certainty that the process will be completed by the new long stop date and any more delay can further hamper the liquidity position of the company.

Risk of Acceleration of Repayment: As on March 31, 2019, VIL had reclassified loans amounting to Rs. 10280 Crs from non-current borrowings to current maturities of long term debt for not meeting certain covenant clauses as per the financing documents for which waivers were sought. VIL has received waivers from three Banks and is actively engaged with the other lenders to receive the same. Timely receipt of all the required waivers remains critical and is a rating monitorable.

Dwindling Subscriber Base: The company has been losing subscribers every quarter with the overall subscriber base falling to 320 million as on June 30, 2019 from 334.10 million as on March 31, 2019. Post that also the company has lost subscribers every month. While, it has been a year since, the

company implemented its service validity vouchers to weed out incoming only/low contribution customers, the subscriber base has still not stabilized. Although, the fall in subscribers has led to an improvement in ARPU, which increased from Rs. 104 as on March 31, 2019 to Rs. 108 as on June 30, 2019, it continues to remain lower than that of VIL's peers.

Inherent Risks Associated with the Sector: Telecom is a highly regulated industry and requires continuous capex to meet the ever changing technological requirements. Any adverse changes in regulations by the regulatory authority, such as revision in the interconnect usage charges for both domestic and international calls in the past, may severely impact the profitability of the service providers. The sector is also characterized by intense competition which has led to significantly lower tariffs in the industry impacting the overall financial position of the majority of the telecom operators.

Credit Strengths:

Parentage of the Company: VIL is backed by two strong and resourceful promoter groups i.e. Aditya Birla Group and Vodafone Plc who hold 27.18% and 44.39% respectively in the company. The promoters have on multiple occasions supported the company's operations with the most recent instance being infusion of Rs. 17900 Crores as part of the company's rights issue in May 2019. Both the promoter groups have always maintained that they are committed to the company and Vodafone Group Plc has also indicated during their analyst call that funding of ~ Rs. 8400 Crs (surplus after repayment of debt of Rs. 11000 Crs from the proceeds of stake sale in Indus Towers by Vodafone Plc) is available for Indian mobility business, if needed. Need based support from the promoter groups has been factored into our rating assessment and is a rating sensitivity

Pan-India Operations: VIL has presence across 22 circles of the country with a subscriber base of 320 million through both its brands - Vodafone and Idea. VIL has a total of 1,849.6 MHz of spectrum across different frequency bands out of which 1,714.8 MHz spectrum is liberalised and can be used towards deployment of any technology (2G, 3G, 4G or 5G). Further, 1,316.8 MHz of spectrum license acquired through auction between year 2014 to 2016 has validity until 2034 to 2036. This large spectrum portfolio across 22 circles will allow the company to create enormous broadband capacity.

Analytical Approach And Applicable Rating Criteria

For arriving at the rating, BWR has considered the consolidated financials of the company owing to equity holding, commonality of management and various business synergies. List of the companies whose financials have been consolidated is given in the annexures.

For more details, please refer to the applicable criteria at the end.

Rating Sensitivities

Any relief extended by the Government to telcos, funding support from the sponsors and compliance with the timelines for servicing of various debt obligations, spectrum dues and the liability arising out of the Supreme Court order are some of the key rating sensitivities.

Positive: Relief provided by the Government in terms of waiver of interest and penalty and/or deferment of the payment of spectrum dues, infusion of funds by the sponsors and improvement in ARPU, customer base and profitability.

Negative: Lack of adequate relief from the Government, further delay in monetization of stake in Indus Towers Ltd and delay/shortfall in additional funding support by the sponsors.

Liquidity Position:

The company reported cash & cash equivalents of Rs. 21180 Crs as on June 30, 2019 and it had balance debt obligations (including spectrum dues) of ~ Rs. 10000 Crs for FY20. However, in the eventuality of acceleration of repayment and non-availability of any relief by the Government, it will be extremely difficult for the company to meet all its obligations without adequate support from the promoter groups.

Company Profile:

Vodafone Idea Ltd (VIL) is the combined entity post the merger of Idea Cellular Ltd and Vodafone India Ltd. The merger of both the entities was approved by NCLT on Aug 30, 2018 and is effective from Aug 31, 2018. VIL is one of the largest mobile service providers in India and operates in all 22 circles in the country. The company is promoted by Vodafone Plc (44.39% stake) and Aditya Birla Group (27.18% stake). VIL reported overall subscriber base of 320 million as on June 30, 2019 with broadband subscribers being 110.50 million.

Key Financial Indicators

Key Financial Indicators			
Particulars	Unit	FY18 (A)	FY19 (A)
Operating Income	Rs. Crores	63406	37092
OPBITDA	Rs. Crores	11930	4774
Net Loss	Rs. Crores	8116	14604
Total Debt	Rs. Crores	120325	125940
Tangible Networth	Rs. Crores	62387	59635
Debt to Equity	Times	1.93	2.11

Note: Financial for FY18 are proforma consolidated financials for the merged entity. All financials are adjusted as per BWR standards.

Non-cooperation With Previous Rating Agency If Any: NA

Rating History

Sl. No.	Instrument	Current Rating			Rating History			
	NCD	Type	Amount (Rs. Crs)	Rating	July 2019	Dec 2018	Sep/Oct 2018	2017
1.	Multiple NCD Issues	Long Term	2500	BWR A- (Rating Watch with Negative Implications)	BWR A+ (Negative)	BWR AA- (Negative)	BWR AA (Credit Watch)	BWR AA+ (Stable)
	CP Issue							
1.	CP Issue	Short Term	Nil	Withdrawn	BWR A1+	BWR A1+	BWR A1+	NA
Total			2500	INR Two Thousand and Five Hundred Crores Only				

Complexity Levels Of The Instruments

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference To Applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)

Analytical Contacts	Investor and Media Relations
Aakriti Sharma Assistant Manager - Ratings Board: +91 11 2341 2232 Ext: 111 aakriti.s@brickworkratings.com Vipula Sharma Director- Ratings Board: +91 80 4040 9940 vipula.s@brickworkratings.com	Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com

**Vodafone Idea Ltd
Annexure I**

Details of Instruments rated by BWR

Instrument	Issue Date	Amount (Rs Crs)	Coupon	Maturity Date	ISIN Particulars	Rating
NCD I	13-Dec-16	1500.00	7.57%, Annual	13-Dec-21	INE669E08250	BWR A- (Rating Watch Negative)
NCD II	17-Jan-17	500.00	7.77%, Annual	17-Jan-22	INE669E08276	BWR A- (Rating Watch Negative)
NCD III	31-Jan-17	500.00	8.03%, Annual	31-Jan-22	INE669E08292	BWR A- (Rating Watch Negative)
NCD IV	08-Feb-17	1000.00	8.12%, Annual	08-Feb-24	INE669E07047	Withdrawn as NCD has been redeemed

Annexure II

List of Entities Consolidated in the Financials

Name of Entity	% Holding of VIL
Idea Cellular Services Ltd	100%
Idea Telesystem Ltd	100%
Vodafone Business Services Ltd	100%
Vodafone M-Pesa Ltd	100%
Mobile Commerce Solutions Ltd	100%
Vodafone Foundation	100%
Vodafone Technology Solutions Ltd	100%
Vodafone Towers Ltd	100%
Vodafone India Ventures Ltd	100%
Vodafone India Digital Ltd	100%
Idea Cellular Infrastructure Services Ltd	100%
You Broadband India Ltd	100%
You System Integration Pvt Ltd	100%
Aditya Birla Idea Payments Bank Ltd	49%
Firefly Networks Ltd	50%
Indus Towers Ltd	11.15%



For print and digital media The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

About Brickwork Ratings :Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons