

RATING RATIONALE

4 Dec 2019

Vodafone Idea Ltd

Brickwork Ratings revises the rating for the NCD Issues aggregating ₹2500 Crores of Vodafone Idea Ltd. The rating continues to remain under Watch with Negative Implications.

Particulars

Instrument**	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present@		Previous (Nov 8, 2019)	Present
Multiple NCDs	2500	2500	Long Term	BWR A- Rating Watch with Negative Implications	BWR BBB- Rating Watch with Negative Implications
Total	2500	2500	INR Two Thousand and Five Hundred Crores Only		

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

** Details of Instruments are provided in Annexure-I

Rating Action / Outlook

The rating for the NCD Issues has been revised in view of the considerable impact of the AGR related liability on the financial performance of the company resulting in huge losses, erosion of networth and deterioration in the overall risk profile of the company. VIL has provided for liabilities of Rs. 27610 Crs towards license fee and Rs. 16540 Crs towards spectrum usage charges in its H1 FY20 financial results. While, the company has filed a review petition against the said AGR order, the uncertainty continues to remain with respect to the payment. In addition, the company continues to lose subscribers diluting the impact of synergy benefits achieved so far.

The cabinet has recently cleared the proposal for deferment of spectrum dues payments by the telcos for FY21 and FY22. Going by the various media reports, the Committee of Secretaries formed to suggest measures of relief to the telecom sector has been disbanded. Whether any further relief will be provided by the Government is still unknown and unless some benefit is given in relation to the AGR dues, the company's financial risk profile as well as liquidity is likely to deteriorate further.

VIL has announced a hike of ~ 42% in its prepaid tariffs without any change in the postpaid tariffs. While, this will certainly help the company in improving the revenues and profitability, retention of subscribers (the company has been losing subscribers over the past eight quarters) is also equally important to fully avail the benefit of increased tariffs. The impact of increased tariffs on the company's financial performance and liquidity in view of the high obligations including the DoT obligations under the SC AGR order would be a key monitorable.

The above 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.

The rating continues to remain under watch with negative implications on account of continuing uncertainty related to relief on AGR matter, impact of tariff hike on the financial performance, the timing of the monetization of stake in Indus Towers Ltd and infusion of fresh funds by the promoters.

Key Rating Drivers

Credit Risks:

Deterioration in the Overall Financial Risk Profile: In its Q2 FY20 results, the company has recognized an additional charge of Rs. 25677.90 Crs as an exceptional item in relation with the AGR dues. The company is in the process of re-farming its 3G assets to be used for 4G technology and accordingly, some of its assets will not remain usable. The company has thus, charged an amount of Rs. 4032 Crs as accelerated depreciation for the said assets. In addition, VIL has derecognized deferred tax assets amounting to Rs. 13935.60 Crs, recognized in the past. The cumulative impact of all of the above along with the normal business losses has led to the biggest ever quarterly loss of Rs. 50921.90 Crs reported by the company. This has also adversely impacted the capital structure of the company with networth taking a hit and liabilities going up post recognition of the AGR payouts. The postponement of spectrum payments for FY21 and FY22 will also not help in the long term as the liability level continues to remain the same albeit postponed. While, VIL has announced a significant increase in tariffs, its impact on the company's financial performance as well as subscriber base is yet to be seen.

Uncertainty With Respect to Relief from the Government: Although, the Government has provided some support by postponing the payment of spectrum dues, a stronger bailout package was expected for the sector involving reduction/waiver in license fee, spectrum usage charges and interest and penalties. If the Committee of Secretaries has been disbanded (as quoted by various media reports), whether any further relief will come for the sector is uncertain. Also, the decision of the Supreme Court on the relief petition filed by the telcos in the AGR matter is uncertain and a critical factor as the telcos were given only three months to pay the said dues with only two months remaining now. The telcos were also expecting an introduction of floor tariffs in the sector by TRAI but there has been no announcement from the authority till now on that front. Given all these uncertainties and the company's reduced financial flexibility, funding mix of these dues will be a critical factor. Also, telecom is a highly capital intensive sector requiring continuous capex to run the operations and with all the ongoing difficulties, the company's ability to manage ongoing capex remains challenged which in turn will have an impact on the overall operations of the company.

For other details, a reference can be made to our rationale dated Nov 8, 2019 at the link mentioned below:

[VIL_Rationale_Nov 8, 2019](#)

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

Positive: Relief extended for the payment of AGR dues, infusion of funds by the sponsors, timely monetization of stake in Indus Towers and improvement in ARPU, customer base & 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: Stretched

VIL reported cash & cash equivalents of Rs.15390 Crs as on Sep 30, 2019. Against this, the company has payments due of ~ Rs. 7000 Crs towards spectrum dues and debt repayment and has balance capex to be incurred of around Rs. 8000 Crs. While, the company will be able to meet these obligations going by the current cash reserves, any acceleration of debt on account of not getting the required waivers may constrain the liquidity. Also, although the deferment of spectrum payments provides some relief, unless some benefit is also given on the AGR front, the overall liquidity position is going to remain constrained and the company will depend on additional sources of funding. Timely monetization of stake in Indus Towers, monetisation of fibre assets and support from parent companies will remain critical to the company's ability to meet its obligations.

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 (27.66% stake). VIL reported overall subscriber base of 311.10 million as on Sep 30, 2019 with broadband subscribers being 112.20 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	Nov 8, 2019	July 2019	Dec 2018	Sep/Oct 2018	2017
1.	Multiple NCD Issues	Long Term	2500	BWR BBB- (Rating Watch with Negative Implications)	BWR A- (Rating Watch with Negative Implications)	BWR A+ (Negative)	BWR AA- (Negative)	BWR AA (Credit Watch)	BWR AA+ (Stable)
			Nil	-	Withdrawn				
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](#)

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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 BBB- (Rating Watch Negative)
NCD II	17-Jan-17	500.00	7.77%, Annual	17-Jan-22	INE669E08276	BWR BBB- (Rating Watch Negative)
NCD III	31-Jan-17	500.00	8.03%, Annual	31-Jan-22	INE669E08292	BWR BBB- (Rating Watch Negative)

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%

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