

## Rating Rationale

February 19, 2020 | Mumbai

### Vodafone Idea Limited

*Rating downgraded to 'CRISIL B+'; Continues on 'Watch Negative'*

#### Rating Action

<b>Rs.3500 Crore Non Convertible Debentures</b>	<b>CRISIL B+ (Downgraded from 'CRISIL BB'; Continues on 'Rating Watch with Negative Implications')</b>
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1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL has downgraded its rating on the Rs 3,500 crore non-convertible debentures of Vodafone Idea Limited (VIL) to **'CRISIL B+'** from 'CRISIL BB'. The rating continues to be on **'Rating Watch with Negative Implications'**.

The rating action reflects CRISIL's expectation of a lower likelihood of any relief from Government of India after the Supreme Court (SC) on February 14, 2020, did not grant any relief under the modification request filed by the telcom companies (telcos), including VIL. Further, SC has directed the telcos to make the payment before the next hearing on March 17, 2020.

Subsequently, DoT had sent notices to telcos (including VIL) regarding immediate payment of adjusted gross revenue (AGR) dues on February 14, 2020. In order to comply with the order, VIL has partially paid Rs 2,500 crore to DoT on February 17, 2020 and is expected to make further payment of Rs 1,000 crore by the end of this week. However, the amount payable is likely to be much higher than the above amounts, thereby enhancing the risk of invocation of bank guarantees provided by the company towards AGR related dues to DoT. This will in turn lead to significant deterioration in VIL's financial risk profile.

VIL had made a total provision of Rs 44,150 crore (Rs 27,610 crore towards licence fee and Rs 16,540 crore towards spectrum usage charges) till the quarter ended September 30, 2019, for the disputed liability towards AGR. The existing liquidity (about Rs 12,530 crore as on December 31, 2019) will be insufficient if there is a payout of AGR liability of Rs 44,150 crore.

The rating remains on watch negative pending clarity on the funding plan by VIL for clearing AGR dues; further relief, if any, to be provided by the government. CRISIL will remove the rating from watch negative and take a final rating action once there is clarity on these issues.

Operating performance of VIL continues to be modest as compared to peers. Earnings before interest, tax, depreciation, and amortisation (EBITDA) was Rs 1,284 crore in the third quarter of fiscal 2020, a sequential increase of about Rs 230 crore over the quarter ended September 30, 2019. Further, as per the Telecom Regulatory Authority of India (TRAI), the company lost 8.5 crore subscribers over the 12 months through November 2019. Continued subscriber loss has negated the benefits of higher average revenue per user (ARPU) and synergy benefits.

Despite the hike in tariffs, debt protection metrics are expected to remain weak on account of payout against the AGR-related dispute, and delay in planned monetisation of assets. Accordingly, as per our estimates, net debt to EBITDA and interest coverage ratios could remain over 20 times and below 1 time, respectively, for fiscal 2020.

The rating reflects VIL's established market position in the mobile services segment in India. These strengths are partially offset by continued weak operating performance leading to modest debt protection metrics, and vulnerability to regulatory changes and technological risks.

#### Analytical Approach

CRISIL has combined the business and financial risk profiles of VIL and its subsidiaries because all these entities, collectively referred to as VIL, operate in the same business and have a common management.

Refer to annexure - details of consolidation, which captures the list of entities considered and their analytical treatment of consolidation.

## **Key Rating Drivers & Detailed Description**

### **Strengths**

#### **\* Established market position in the mobile services segment in India**

Post-merger with Idea Cellular Ltd (ICL), VIL has emerged as one of the significant mobile operators in India. It had a gross revenue market share of 29.1% in the quarter ended September 30, 2019 (excluding National Long Distance and International Long Distance revenue), subscriber market share of 29.4% as on November 30, 2019, and spectrum holdings of 1,846 megahertz (MHz), of which around 1,724 MHz can be utilised for deploying any technology 2G, 3G, 4G, or 5G. VIL has been providing wireless voice and broadband services across all 22 circles in the country, and the quantum of spectrum available provides a cushion to handle future requirement.

As of January 2020, VIL has already completed network integration in 17 circles. The ability to seamlessly transition to a unified network while sustaining market position will be a key rating sensitivity factor.

### **Weaknesses**

#### **\* Modest operating performance leading to below-average debt protection metrics**

The domestic telecom industry has been through a roller coaster ride over the past few years. The price war, which started after Reliance Jio Infocomm Ltd ('CRISIL AAA/Stable/CRISIL A1+') launched its services, has eroded the industry's revenue. This, along with reduction in call termination charges, led to a significant decline in ARPU.

VIL reported an ARPU of Rs 88 for the quarter ended September 2018, the first quarter after the merger. Though measures, such as introduction of minimum recharge packs and recent tariff hikes have helped increase ARPU to Rs 109 in the quarter ended December 2019. But the company has also seen significant loss of more than 8 crore subscribers over the 12 months through December 2019, which has moderated the growth in revenues and profitability.

The recent tariff hike by VIL with effect from December 3, 2019, is expected to improve profitability, assuming there will be no significant churn in subscribers, pricing discipline is maintained by telcos, and subscribers do not shift to lower price packs. However, the benefits will be more pronounced next fiscal, given the full-year impact of the tariff hike.

Operating performance is likely to remain moderate, though the quantum of synergy benefits, improvement in profitability, and materialisation of deleveraging plans will remain key rating sensitivity factors over the medium term.

#### **\* Exposure to technological changes and regulatory risks**

New technology could necessitate fresh investments or an overhaul of the network. The advent of 4G, for instance, saw telcos investing substantially in upgrading infrastructure even before they could make significant returns on investments in 3G.

Further, the telecom industry is highly regulated. The government reduced call termination charges for domestic calls to 6 paisa from 14 paisa, and for international calls to 30 paisa from 53 paisa; which constrained profitability of large incumbent players.

However, TRAI has deferred the plan of reduction in interconnect usage charges (IUC) to zero per minute to January 1, 2021, earlier planned to be effective from January 1, 2020, which will be beneficial to VIL.

On November 8, 2019, TRAI had issued another consultation paper focused on review of the existing regulatory regime for international termination charges. The final outcome in this regard will continue to be monitored.

Furthermore, on December 17, 2019, TRAI floated a consultation paper with regards to requirement to fix floor pricing. TRAI has sought comments from various stakeholders on the issue, deadline for which is February 28, 2020.

## **Rating sensitivity factors**

### **Upward factors**

- \* Significant relief provided by the government on the AGR issue in terms of lower liability or deferment of liabilities
- \* Sustenance of debt to EBITDA ratio at below 7 times
- \* Sizeable financial support from the promoters, leading to better capital structure

### **Downward factors**

- \* Debt to EBITDA ratio remaining above 10 times
- \* Further weakening of the operating performance, constraining cash accrual

\* No relief by the government regarding the AGR issue, impacting liquidity

### **Liquidity Poor**

VIL had cash and cash equivalents of Rs 12,530 crore as on December 31, 2019, against deferred spectrum repayment of about Rs 3,000 crore in the quarter ended March 2020. However, payout towards the AGR liability could significantly impact liquidity. Besides, delay in planned monetisation of assets might further stretch liquidity. Any accelerated debt servicing payments, triggered by the breach of debt covenants, may also constrain liquidity.

### **About the Company**

VIL is one of the leading mobile service providers in India. It operates in all 22 service areas in the country.

Vodafone and Aditya Birla Group (ABG) owned 44.39% and 27.18% stake, respectively, on a fully diluted basis in VIL, as on December 31, 2019. Vodafone is a globally renowned international mobile communications conglomerate with operations in 25 countries, over 65 crore customers, and more than 41 partner networks. ABG is a large Indian conglomerate with operations in 34 countries across 5 continents.

Net loss was Rs 6,438 crore in the quarter ended December 31, 2019, driven by accounting for AGR liability, reversal of deferred tax assets recognised earlier, and accelerated depreciation on certain assets.

### **Key Financial Indicators - pro-forma Vodafone Idea Ltd**

As on / for the period ended March 31		2019	2018
Revenue	Rs crore	48,747	63,138
Profit after tax (PAT)	Rs crore	-13,371	-12,285
PAT margin	%	-27.4	-19.4
Debt/EBITDA	Times	23.1	10.3
Adjusted interest coverage	Times	0.49	1.25

**Any other information:** Not applicable

### **Note on complexity levels of the rated instrument:**

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels). Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

### **Annexure - Details of Instrument(s)**

ISIN	Name of instrument	Date of allotment	Coupon rate	Maturity date	Issue size (Rs crore)	Rating assigned with outlook
INE713G08046	Debentures	12.06.15	8.25%	10-Jul-20	3,500.00	CRISIL B+/Watch Negative

### **Annexure - List of entities consolidated**

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Idea Cellular Services Ltd	Fully consolidated	Strong financial and business linkages
Idea Telesystems Ltd	Fully consolidated	Strong financial and business linkages
You Broadband India Ltd	Fully consolidated	Strong financial and business linkages
You System Integration Private Ltd	Fully consolidated	Strong financial and business linkages
Vodafone Business Services Ltd	Fully consolidated	Strong financial and business linkages
Mobile Commerce Solutions Ltd	Fully consolidated	Strong financial and business linkages
Vodafone Towers Ltd	Fully consolidated	Strong financial and business linkages
Vodafone Foundation	Fully consolidated	Strong financial and business linkages
Vodafone Technology Solutions Ltd	Fully consolidated	Strong financial and business linkages
Vodafone m-pesa Ltd	Fully consolidated	Strong financial and business linkages
Vodafone India Ventures Ltd	Fully consolidated	Strong financial and business linkages
Vodafone India Digital Ltd	Fully consolidated	Strong financial and business linkages
Connect (India) Mobile Technologies Pvt Ltd	Fully consolidated	Strong financial and business linkages
Aditya Birla Idea Payments Bank Ltd	Equity method	Proportionate consolidation
Indus Towers Ltd	Equity method	Proportionate consolidation
Firefly Networks Ltd	Equity method	Proportionate consolidation

### **Annexure - Rating History for last 3 Years**

	Current	2020 (History)	2019	2018	2017	Start of

											2017	
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	
Commercial Paper	ST		--		--	18-01-19	Withdrawal	28-11-18	CRISIL A1+		--	--
Non Convertible Debentures	LT	3500.00 19-02-20	CRISIL B+/(Watch) Negative	24-01-20	CRISIL BB/Watch Negative	22-11-19	CRISIL BBB-/Watch Negative	28-11-18	CRISIL A+/Negative		--	--
						01-11-19	CRISIL BBB+/Watch Negative					
						06-08-19	CRISIL A/Negative					
						18-01-19	CRISIL A+/Negative					
Short Term Debt	ST											CRISIL A1+

All amounts are in Rs.Cr.

#### Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[Rating Criteria for Mobile Telephony Services](#)

[CRISILs Criteria for Consolidation](#)

[CRISILs Criteria for rating short term debt](#)

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