

## RATING RATIONALE

19 Feb 2020

### 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 (Dec 2019)	Present
Multiple NCDs	2500	2500	Long Term	BWR BBB- Rating Watch with Negative Implications	BWR BB- Rating Watch with Negative Implications
<b>Total</b>	<b>2500</b>	<b>2500</b>	<b>INR Two Thousand and Five Hundred Crores Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://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 negative impact on the company's financial risk profile on account of non-availability of any relief from the Supreme Court in the AGR matter. The modification plea filed by the telcos seeking elongated payment schedule for the AGR dues was heard on Feb 14, 2020 and no relief has been provided by the SC while setting March 17, 2020 as the new date of hearing. The Supreme Court has also asked the telcos to make payment of their entire liability to DoT before the next hearing date which has put the existing liquidity position of VIL under immense pressure. Based on the Supreme Court's orders, DoT asked for immediate payments from the telcos towards the AGR liability. In view of this demand, VIL on Feb 17, 2020 has paid an initial amount of Rs. 2500 Crs to DoT and has offered to pay an additional amount of Rs. 1000 Crs by Feb 21, 2020.

VIL had provided for liabilities of Rs. 27610 Crs towards license fee and Rs. 16540 Crs towards spectrum usage charges in its H1 FY20 financial results (inclusive of interest and penalties) based on the demands raised by DoT and estimation for the periods for which demand had not been raised. VIL however, has maintained that it is still in the process of completing self-assessment of the dues (as advised by DoT) and the actual amount of liability will become clear after the same is concluded. Nonetheless, the company's ability to repay the dues remains constrained on the back of continuous losses (~ Rs. 6439 Crs for Q3 FY20), absence of any support from the promoters and inadequate cash balance (Rs. 12530 Crs as on Dec 31, 2019) to cover the AGR and debt obligations. Additionally, the company continues to lose subscribers diluting the impact of synergy benefits and tariff hike achieved so far.

Also, the pending approval for the merger of Indus Towers Ltd and Bharti Infratel Ltd has still not come, further delaying the liquidation of the company's stake in Indus Towers Ltd. The current long stop date is Feb 24, 2020 and timely realization of the proceeds from stake sale may aid the liquidity position to some extent and is a key rating monitorable.

Given this backdrop and the company's limited financial flexibility, its ability to incur necessary capex on an ongoing basis has to be monitored.

The rating continues to remain under watch with negative implications on account of continuing uncertainty related to quantum of AGR liability and its timely payment to DoT, the timing of monetization of stake in Indus Towers Ltd and infusion of fresh funds by the promoters.

### **Key Rating Drivers**

#### **Credit Risks:**

*Non-Availability of Relief from the Supreme Court:* The Supreme Court of India gave a ruling on October 24, 2019 in the long standing litigation pertaining to the definition of AGR wherein it allowed inclusion of income generated from non-core activities as well as the calculation. This resulted in considerable liability for the telecom operators and accordingly a review petition was filed by them in the matter. The review petition was also rejected by the Supreme Court in January 2020, post which the telcos filed a modification plea seeking an extended timeline to pay the dues. On Feb 14, 2020, the Supreme Court has again denied any relaxation to the telecom companies and has asked them to pay their entire liability before the next hearing date i.e. March 17, 2020. While, the exact amount to be paid by VIL is still not clear as the process of self assessment (as advised by DoT) is yet to be completed, the company has provided for liabilities amounting to Rs.44150 Crs in its financial statements. VIL has also made an initial payment of Rs.2500 Crs on Feb 17, 2020 and has offered to pay another Rs.1000 Crs by Feb 21, 2020. Also, there is a risk of invocation of Bank Guarantees submitted by VIL to DoT in case it fails to comply with the order which will be difficult for the company to manage.

*Deterioration in the Overall Financial Risk Profile:* In the Q3 FY20 results, the company has reported a Net Loss of ~ Rs. 6439 Crs taking the total loss for 9M FY20 to Rs. 62234.60 Crs. A substantial portion of losses for the 9 months period has been contributed by the additional charge towards AGR dues amounting to Rs. 25730.70 Crs, impairment of assets and accelerated depreciation on account of refarming of 3G assets to be used for 4G technology aggregating Rs. 5357.30 Crs and derecognition of deferred tax assets of Rs. 13935.60 Crs. Accordingly, the capital structure of the company has also deteriorated with Networth coming down from Rs. 59634.80 Crs as on March 31, 2019 to Rs. 17622.90 Crs as on Dec 31, 2019 and Gearing increasing to 6.57x as on Dec 31, 2019. Financial flexibility has reduced greatly with Gross Debt/EBITDA of more than 20x limiting the company's ability to incur necessary capex towards running the operations smoothly and maintaining the network quality. The same will have a bearing on the company's already declining subscriber base.

*Declining Subscriber Base:* While, customer churn has come down from 3.50% in Q2 FY20 to 3.30% in Q3 FY20, the company continues to lose subscribers. Subscriber base came down from 311 mn as

on Sep 30, 2019 to 304 mn as on Dec 31, 2019. Continuously declining subscriber base has negated all the synergy benefits the company realized post merger.

**Absence of Adequate Support from the Promoters:** Both the promoters group i.e. Vodafone Group and Aditya Birla Group have announced at various public forums that they are not keen on infusing any additional equity into the company. During the company's rights issue last year, Vodafone Group Plc had raised a debt of ~ Rs. 11000 Crs which was ring fenced against the Group's India business. Vodafone Group Plc expects to realize ~ Rs. 19000 Crs from selling its 42% stake in Indus Towers Ltd (post merger with Bharti Infratel Ltd). The Group has indicated that the surplus available post repayment of the said loan (~ Rs. 8000 Crs) will be available for Group's Indian mobility business. However, the said amount will be available only if the merger of Indus Towers Ltd and Bharti Infratel Ltd goes through for which the required approvals are still not in place. In the absence of availability of adequate support from the promoters, the company's ability to pay the AGR dues will remain challenged increasing the likelihood of missing the deadline of March 17, 2020.

#### **Credit Strengths:**

**Pan-India Operations:** VIL has presence across 22 circles of the country with a subscriber base of 304 million through both its brands - Vodafone and Idea. VIL has a total of 1,846 MHz of spectrum across different frequency bands out of which 1,723.6 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 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**

**Positive:** Infusion of funds by the sponsors and timely monetization of stake in Indus Towers resulting in availability of adequate funds to meet debt and AGR obligations.

**Negative:** Further delay in monetization of stake in Indus Towers Ltd, non-compliance with the Supreme Court order and unavailability of any relief from the Government.

#### **Liquidity Position: Poor**

VIL reported cash & cash equivalents of Rs. 12530 Crs as on Dec 31, 2019. Against this, the company has debt obligations due of Rs. 3200 Crs for the balance period of FY20 (inclusive of spectrum instalment payable to DoT). Additionally, the company had recognized an amount of Rs. 10206 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. These waivers are partially received and in the absence of the same, it may result in acceleration of repayments which will further

constrain the already weak liquidity position. Further, the company has to shell out a significant amount of money for paying the AGR dues for which the sources are not yet identified. All this has put immense pressure on the company's liquidity position and availability of any relief from the Government, timely monetization of stake in Indus Towers Ltd and infusion of additional equity from the promoters shall remain critical to the company's ability to meet its operational and financial 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 304 million as on Dec 31, 2019 with broadband subscribers being 118.40 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					
		Type	Amount (Rs. Crs)	Rating	Dec 2019	Nov 2019	July 2019	Dec 2018	Sep/Oct 2018	2017
1.	Multiple NCD Issues	Long Term	2500	BWR BB- (Rating Watch with Negative Implications)	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)
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](http://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 BB- (Rating Watch Negative)
NCD II	17-Jan-17	500.00	7.77%, Annual	17-Jan-22	INE669E08276	BWR BB- (Rating Watch Negative)
NCD III	31-Jan-17	500.00	8.03%, Annual	31-Jan-22	INE669E08292	BWR BB- (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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