

15 August 2024

India | Equity Research | Q2FY25 results review

## Vodafone Idea

Telecom

### Debt funding is critical for accelerated network rollout

Vodafone Idea's (VIL) Q2FY25 customer ARPU rose 7.8% QoQ (Bharti - 10.6% Rjio - 7.4%), broadly on expected lines. However, VIL lost higher than expected subs, particularly, data subs loss of 2mn despite largest 4G network expansion. VIL expects to reverse the trend by growing subs base from end-FY25. It has been in discussion with government for waiver on bank guarantees and intervention in AGR matter. VIL is also on track for debt funding. It expects cash shortfall towards government dues to be converted into equity. Cut EBITDA by 2-6% over FY25-27E, and TP to INR 7 (from INR 11) with unchanged FY27E EV/EBITDA multiple of 13x. Maintain **HOLD**. Securing debt funding, BG waiver and AGR resolution are key near-term events to watch out.

### ARPU rose well, but subs loss restricted revenue gains

VIL's revenue was up 4.0% QoQ/2.0% YoY to INR 109bn. Revenue benefited from ARPU growth of 6.8% QoQ/ 9.9% YoY to INR 156; customer ARPU (excl. M2M) improved 7.8% QoQ to INR 166. However, revenue growth was lower due to subs dip of 5.1mn (dip 2.4% QoQ) to 205mn vs average dip of 2.8mn in the past four quarters. Gross addition was healthy at 23.2mn (Bharti - 31.4mn; Rjio - 29.8mn) in Q2FY25, and it has been grabbing more gross subs market share. Higher subs decline was due to SIM consolidation on tariff hike, and unchanged tariffs for BSNL. The company indicated port-out to BSNL has been dropping in past three months. VIL started fixing its 4G coverage and capacity aided by acceleration capex – it had largest 4G deployment with 4G-site net add of 42k in Q2FY25 across 900, 1,800 and 2,100MHz bands which has helped in increasing data capacity by 14% and population reach by 22mn to 1.05bn. Data subs fell 2.0mn to 135mn, and 4G subs dipped 0.8mn to 125.9mn. Data subs are only 65.8% of total subs for VIL.

Tariff hike implies ARPU growth of ~16% for VIL; at exit month, ARPU increased by 10% in Q2FY25. The difference is due to no tariff hike for M2M and enterprise customers, delayed impact for postpaid subs, some customers are yet to come for renewal. ARPU growth for Bharti and Rjio stood at 10.6% and 7.4% QoQ, respectively, in Q2FY25.

### Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	4,26,517	4,56,000	5,22,085	6,07,568
EBITDA	1,71,260	2,00,880	2,51,155	3,23,291
EBITDA Margin (%)	40.2	44.1	48.1	53.2
Net Profit	(3,19,939)	(2,50,992)	(2,18,771)	(1,45,221)
EPS (INR)	(6.4)	(3.7)	(3.2)	(1.7)
EPS % Chg YoY	3.5	(40.7)	(1.5)	(1.9)
P/E (x)	(1.2)	(2.0)	3.8	(4.4)
EV/EBITDA (x)	14.2	12.9	9.9	7.7
RoCE (%)	(4.9)	(3.5)	(0.2)	5.1
RoE (%)	35.0	23.5	(12.8)	16.4

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#### Market Data

Market Cap (INR)	512bn
Market Cap (USD)	6,056mn
Bloomberg Code	IDEA IN
Reuters Code	VODA BO
52-week Range (INR)	19 / 7
Free Float (%)	34.0
ADTV-3M (mn) (USD)	86.2

Price Performance (%)	3m	6m	12m
Absolute	(53.5)	(44.6)	(47.4)
Relative to Sensex	(51.6)	(50.7)	(66.9)

ESG Score	2022	2023	Change
ESG score	52.9	69.2	16.3
Environment	30.4	47.5	17.1
Social	29.1	69.4	40.3
Governance	76.9	79.7	2.8

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E	FY27E
Revenue	(2.2)	(4.4)	(2.7)
EBITDA	(2.1)	(5.9)	(3.1)

#### Previous Reports

24-09-2024: [Company Update](#)

14-08-2024: [Q1FY25 results review](#)

### Cash EBITDA rose 10.5% QoQ/ 12.6% YoY to INR 23bn

EBITDA increase was led by a decline in network opex by 1.5% QoQ/ 6.0% YoY to INR 23.6bn, and we expect network opex to rise with acceleration in 4G and 5G deployment. VIL had net loss of INR 72bn due to rise in finance cost to INR 66bn (vs INR 55bn in Q1FY25 which had few one-off benefits/ reversals). Capex stood at INR 14bn (12.4% of revenue) for Q2FY25 and INR 21bn (9.8% of revenue) for H1FY25. It anticipates to incur capex of INR 80bn in H2FY25.

### Net debt rose to INR 2,032bn

VIL's net debt stood at INR 2,032bn in Q2FY25, up INR 72bn on account of recognition of INR 35bn towards spectrum purchased in Jun'24 auction. It is required to provide bank guarantee of INR 247bn for dues where moratorium is about to expire. VIL is in discussion with government, requesting its support by providing waiver for bank guarantees. It is also seeking government intervention in AGR matter where the Supreme Court has rejected to admit curative petition on technical grounds. VIL, along with promoters, is in discussion with banks for debt funding which may help the company in rolling out 4G and 5G networks in next three years.

### Other highlights

- Company hopes to reverse subs loss trend by end-FY25 as the benefit of network rollout accrues.
- VIL has launched converged offering with mobile and fixed broadband services in partnership with regional FTTH providers.
- VIL has reiterated its capex commitment of INR 500–550bn over the next three years. However, bank funding is critical to complete the planned capex. The company did not factor resolution of AGR matter in its proposal for debt funding, hence, its proposal remains unchanged, but the proposal factors government waiver of bank guarantees.
- Post the completion of moratorium on government dues, VIL is required to make payments starting Oct'25 till Mar'26, totalling INR 272bn. In case of cash shortfall, the company, based on telecom reform package of Sep'21, expects it to convert into equity.

### Risks

- **Downside:** 1) Lower than expected AGR revenue market share, and 4G subs base; 2) the company fails to get more equity capital; and 3) unfavourable regulatory policies or outcome on ongoing litigations.
- **Upside risks:** 1) Higher than expected revenue market share; and 2) higher FCF generation than estimated.

**Exhibit 1: VIL consolidated financial**

INR mn	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	QoQ (%)	YoY (%)
<b>Revenue</b>	<b>1,07,163</b>	<b>1,06,731</b>	<b>1,06,068</b>	<b>1,05,083</b>	<b>1,09,322</b>	<b>4.0</b>	<b>2.0</b>
Network operation cost	25,065	24,016	23,648	23,935	23,566	(1.5)	(6.0)
% of revenue	23.4	22.5	22.3	22.8	21.6		
Roaming & access charges	10,644	9,823	10,624	10,852	11,353	4.6	6.7
% of revenue	9.9	9.2	10.0	10.3	10.4		
License fees and spect charges	9,269	9,256	9,044	8,924	9,312	4.3	0.5
% of revenue	8.6	8.7	8.5	8.5	8.5		
Employee cost	5,348	5,432	5,441	5,467	5,854	7.1	9.5
% of revenue	5.0	5.1	5.1	5.2	5.4		
SGA and other exp	14,009	14,700	13,953	13,858	13,739	(0.9)	(1.9)
% of revenue	13.1	13.8	13.2	13.2	12.6		
<b>EBITDA</b>	<b>42,828</b>	<b>43,504</b>	<b>43,358</b>	<b>42,047</b>	<b>45,498</b>	<b>8.2</b>	<b>6.2</b>
EBITDA margin (%)	40.0	40.8	40.9	40.0	41.6		
<b>EBITDA (adj for Ind AS)</b>	<b>20,600</b>	<b>21,400</b>	<b>21,800</b>	<b>21,000</b>	<b>23,200</b>	<b>10.5</b>	<b>12.6</b>
EBITDA margin (%)	19.2	20.1	20.6	20.0	21.2		
Depreciation and amortisation	56,673	55,984	57,513	53,691	54,040	0.7	(4.6)
<b>EBIT</b>	<b>(13,845)</b>	<b>(12,480)</b>	<b>(14,155)</b>	<b>(11,644)</b>	<b>(8,542)</b>		
Interest	65,690	65,180	62,803	55,186	66,136	19.8	0.7
Other income	345	249	325	2,563	3,000		
<b>PBT</b>	<b>(79,190)</b>	<b>(77,411)</b>	<b>(76,633)</b>	<b>(64,267)</b>	<b>(71,678)</b>		
Share of profits(losses) in JV	(12)	(11)	(26)	1	(3)		
Provision for tax	8,177	(8)	87	55	78		
Effective tax rate	(10.3)	0.0	(0.1)	(0.1)	(0.1)		
Exceptional gain/ (loss)	-	7,555	-	-	-		
<b>Net income (reported)</b>	<b>(87,379)</b>	<b>(69,859)</b>	<b>(76,746)</b>	<b>(64,321)</b>	<b>(71,759)</b>		
<b>EPS (INR)</b>	<b>(1.8)</b>	<b>(1.4)</b>	<b>(1.5)</b>	<b>(0.9)</b>	<b>(1.0)</b>		

Source: I-Sec research, Company data

**Exhibit 2: Subs decline sharper at 5.1mn in Q2FY25 due to tariff hike**

	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	QoQ (%)	YoY (%)
Subscribers (mn)	220	215	213	210	205	(2.4)	(6.7)
Net adds (mn)	(1.6)	(4.6)	(2.2)	(2.9)	(5.1)		
Prepaid subs as % of total	89.5	89.0	88.8	88.5	88.0		
Blended churn (%)	4.1	4.3	3.9	4.0	4.5		
ARPU (INR)	142	145	146	146	156	6.8	9.9
Minutes of Use (min/subs)	613	614	627	607	587	(3.3)	(4.2)
Minutes on Network (mn)	4,06,000	4,01,000	4,02,000	3,85,000	3,65,000	(5.2)	(10.1)
Incremental mins (QoQ, mn)	(14,000)	(5,000)	1,000	(17,000)	(20,000)		
2G cell sites	1,83,565	1,83,358	1,83,758	1,83,323	1,84,245	0.5	0.4

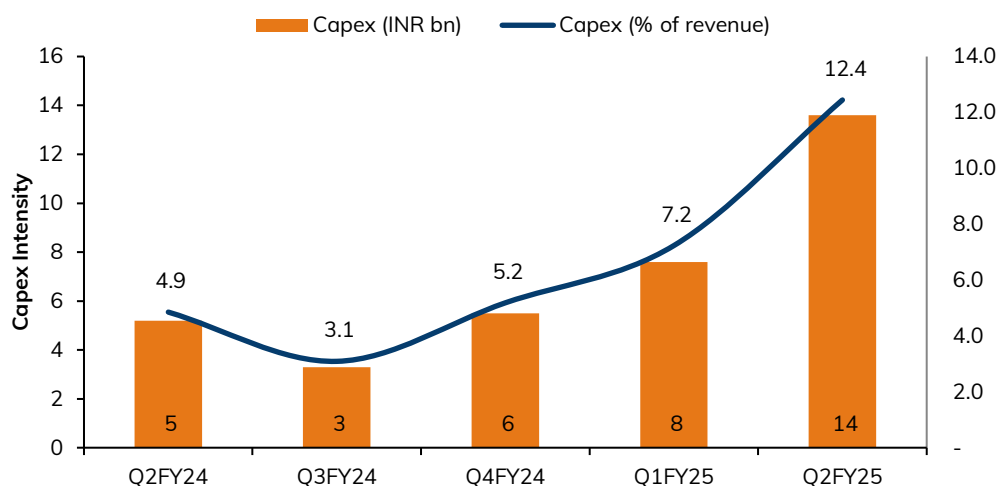
Source: I-Sec research, Company data

**Exhibit 3: Data subs dipped on SIM consolidation and BSNL aggression**

	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	QoQ (%)	YoY (%)
<b>Data (2G+3G+4G)</b>							
Data subs (mn)	137	137	137	137	135	(1.5)	(1.7)
Net adds (mn)	1.3	0.2	(0.1)	(0.4)	(2.0)		
As % of total subs	62.4	63.8	64.5	65.2	65.8		
Data volume (mn MB)	61,19,000	60,04,000	60,49,000	61,11,000	59,92,000	(1.9)	(2.1)
Data usage per sub (MB)	16,186	15,738	15,812	15,961	15,760	(1.3)	(2.6)
4G data subs (mn)	124.7	125.6	126.3	126.7	125.9	(0.6)	1.0
Net adds (mn)	1.8	0.9	0.7	0.4	(0.8)		
3G/4G Cell sites	4,40,467	4,38,901	4,30,705	4,17,245	4,39,599	5.4	(0.2)
Net adds (3G/4G cell sites)	(1,595)	(1,566)	(8,196)	(13,460)	22,354		

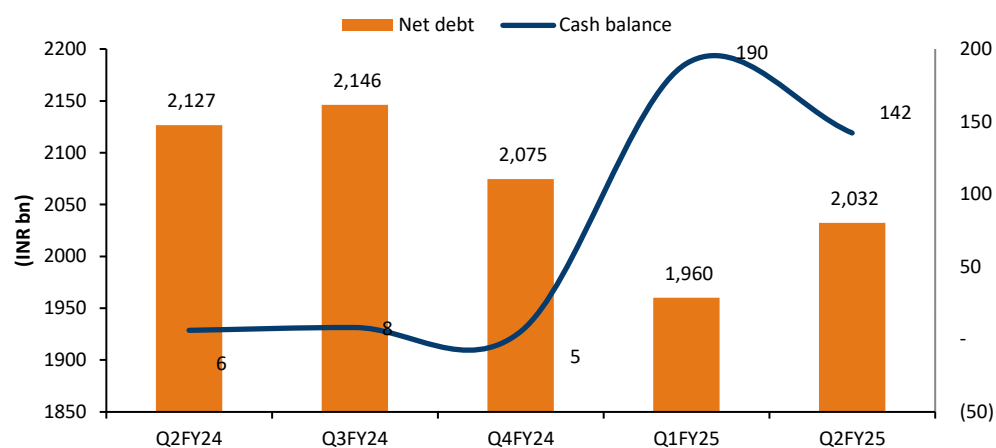
Source: I-Sec research, Company data

#### Exhibit 4: Capex intensity at 12.4% of revenue



Source: I-Sec research, Company data

#### Exhibit 5: Net debt increased by INR 72bn in Q2FY25



Source: I-Sec research, Company data

#### Exhibit 6: VIL valuation snapshot

	FY27E
<b>EBITDA (INR mn)</b>	1,88,704
<b>EV/EBITDA multiple</b>	13.0
<b>Enterprise value (INR mn)</b>	<b>24,53,150</b>
Net debt (INR mn)	18,43,905
<b>Equity value (INR mn)</b>	<b>6,09,245</b>
No of outstanding shares (mn)	87,879
<b>Value per share</b>	<b>7</b>

Source: I-Sec research, Company data

### Exhibit 7: Earnings revision

INR mn	Revised			Earlier			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Subs (mn)	210	218	226	221	229	237	(5.0)	(4.8)	(4.6)
ARPU (INR)	159	181	206	159	181	202	-	-	1.8
<b>Financial (INR mn)</b>									
Revenue	4,56,000	5,22,084	6,07,568	4,66,468	5,46,037	6,24,607	(2.2)	(4.4)	(2.7)
EBITDA	2,00,880	2,51,155	3,23,291	2,05,216	2,67,007	3,33,542	(2.1)	(5.9)	(3.1)
EBITDA margin (%)	44.1	48.1	53.2	44.0	48.9	53.4			
PAT	(2,50,992)	1,31,229	(1,45,221)	1,23,641	(1,85,440)	(1,01,650)			
EPS (INR)	(3.7)	1.9	(1.7)	1.8	(2.7)	(1.2)			

Source: I-Sec research, Company data

### Exhibit 8: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	48.9	37.2	37.3
Institutional investors	4.2	19.8	17.6
MFs and others	2.1	6.2	4.1
FIs/Banks, Insurance	0	0	0
Insurance	0.1	0.7	0.7
FIs	2	12.9	12.8
Others	46.9	43.0	45.1

Source: Bloomberg, I-Sec research

### Exhibit 9: Price chart



Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
<b>Net Sales</b>	<b>4,26,517</b>	<b>4,56,000</b>	<b>5,22,085</b>	<b>6,07,568</b>
Operating Expenses	2,55,257	2,55,120	2,70,929	2,84,277
<b>EBITDA</b>	<b>1,71,260</b>	<b>2,00,880</b>	<b>2,51,155</b>	<b>3,23,291</b>
EBITDA Margin (%)	4,015.3	4,405.3	4,810.6	5,321.1
Depreciation & Amortization	2,26,335	2,36,741	2,52,948	2,66,595
EBIT	(55,075)	(35,861)	(1,793)	56,696
Interest expenditure	2,57,655	2,16,319	2,18,226	2,03,228
Other Non-operating Income	-	-	-	-
<b>Recurring PBT</b>	<b>(3,11,653)</b>	<b>(2,50,992)</b>	<b>(2,18,771)</b>	<b>(1,45,221)</b>
<b>Profit / (Loss) from Associates</b>	<b>(55)</b>	-	-	-
Less: Taxes	8,286	-	-	-
PAT	(3,12,384)	(2,50,992)	1,31,229	(1,45,221)
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	1,132	1,189	1,248	1,310
<b>Net Income (Reported)</b>	<b>(3,12,384)</b>	<b>(2,50,992)</b>	<b>1,31,229</b>	<b>(1,45,221)</b>
<b>Net Income (Adjusted)</b>	<b>(3,19,939)</b>	<b>(2,50,992)</b>	<b>(2,18,771)</b>	<b>(1,45,221)</b>

Source Company data, I-Sec research

### Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
<b>Total Current Assets</b>	<b>1,29,098</b>	<b>1,39,397</b>	<b>2,46,713</b>	<b>1,93,274</b>
of which cash & cash eqv.	5,362	12,920	1,13,780	52,393
<b>Total Current Liabilities &amp; Provisions</b>	<b>5,41,413</b>	<b>5,19,534</b>	<b>5,19,523</b>	<b>5,37,661</b>
<b>Net Current Assets</b>	<b>(4,12,315)</b>	<b>(3,80,137)</b>	<b>(2,72,811)</b>	<b>(3,44,388)</b>
Investments	5	3	3	3
<b>Net Fixed Assets</b>	<b>15,83,139</b>	<b>15,15,176</b>	<b>15,44,008</b>	<b>15,69,958</b>
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,81,891	1,81,891	1,81,891	1,81,891
Total Intangible Assets	-	-	-	-
Other assets	1,37,737	1,29,008	1,16,360	1,05,011
Deferred Tax Assets	138	138	138	138
<b>Total Assets</b>	<b>18,49,977</b>	<b>17,83,584</b>	<b>19,07,084</b>	<b>18,68,246</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>20,76,298</b>	<b>20,96,298</b>	<b>20,96,298</b>	<b>18,96,298</b>
<b>Deferred Tax Liability</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>
Provisions	209	223	256	298
Other Liabilities	3,21,057	3,06,770	2,99,019	2,87,223
Equity Share Capital	5,01,198	6,78,789	6,78,789	8,78,789
Reserves & Surplus	(15,42,866)	(17,70,698)	(16,39,470)	(16,84,691)
<b>Total Net Worth</b>	<b>(10,41,668)</b>	<b>(10,91,910)</b>	<b>(9,60,681)</b>	<b>(8,05,902)</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>18,49,977</b>	<b>17,83,584</b>	<b>19,07,084</b>	<b>18,68,246</b>

Source Company data, I-Sec research

### Exhibit 12: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	1,06,731	1,06,068	1,05,083	1,09,322
% Growth (YOY)	(0.4)	(0.6)	(1.4)	(2.0)
EBITDA	43,504	43,358	42,047	45,498
Margin %	40.8	40.9	40.0	41.6
Other Income	249	325	2,563	3,000
Extraordinaries	7,555	-	-	-
Adjusted Net Profit	(69,859)	(76,746)	(64,321)	(71,759)

Source Company data, I-Sec research

### Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
<b>Operating Cashflow</b>	<b>2,01,836</b>	<b>2,00,880</b>	<b>6,01,155</b>	<b>3,23,291</b>
Working Capital Changes	6,425	(30,166)	(1,536)	9,784
Capital Commitments	(20,622)	(1,00,000)	(2,00,000)	(2,00,000)
<b>Free Cashflow</b>	<b>1,87,639</b>	<b>70,714</b>	<b>3,99,619</b>	<b>1,33,075</b>
<b>Other investing cashflow</b>	<b>1,554</b>	<b>1,191</b>	<b>1,248</b>	<b>1,310</b>
Cashflow from Investing Activities	1,554	1,191	1,248	1,310
Issue of Share Capital	1	2,00,750	-	3,00,000
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(73,988)	20,000	-	(2,00,000)
Dividend paid	-	-	-	-
Others	(87,138)	(68,778)	(81,781)	(92,545)
Cash flow from Financing Activities	(1,89,803)	(64,347)	(3,00,007)	(1,95,773)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(610)</b>	<b>7,558</b>	<b>1,00,860</b>	<b>(61,387)</b>
Closing cash & balance	1,678	12,920	1,13,780	52,393

Source Company data, I-Sec research

### Exhibit 14: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
<b>Per Share Data (INR)</b>				
Reported EPS	(6.2)	(3.7)	1.9	(1.7)
Adjusted EPS (Diluted)	(6.4)	(3.7)	(3.2)	(1.7)
Cash EPS	(1.9)	(0.2)	0.5	1.4
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	(20.8)	(16.1)	(14.2)	(9.2)
Dividend Payout (%)	-	-	-	-
<b>Growth (%)</b>				
Net Sales	1.2	6.9	0.1	0.2
EBITDA	1.8	17.3	0.3	0.3
EPS (INR)	3.5	(40.7)	(1.5)	(1.9)
<b>Valuation Ratios (x)</b>				
P/E	(1.2)	(2.0)	3.8	(4.4)
P/CEPS	(3.9)	(35.0)	14.6	5.3
P/BV	(0.4)	(0.5)	(0.5)	(0.8)
EV / EBITDA	14.2	12.9	9.9	7.7
EV / Sales	5.7	5.7	4.8	4.1
Dividend Yield (%)	-	-	-	-
<b>Operating Ratios</b>				
Gross Profit Margins (%)	-	-	-	-
EBITDA Margins (%)	40.2	44.1	48.1	53.2
Effective Tax Rate (%)	(2.7)	-	-	-
Net Profit Margins (%)	(73.2)	(55.0)	25.1	(23.9)
NWC / Total Assets (%)	(22.3)	(21.3)	(14.3)	(18.4)
Net Debt / Equity (x)	(2.0)	(1.9)	(2.1)	(2.3)
Net Debt / EBITDA (x)	12.1	10.4	7.9	5.7
<b>Profitability Ratios</b>				
RoCE (%)	(4.9)	(3.5)	(0.2)	5.1
RoE (%)	35.0	23.5	(12.8)	16.4
RoIC (%)	(4.9)	(3.5)	(0.2)	5.5
Fixed Asset Turnover (x)	0.1	0.1	0.2	0.2
Inventory Turnover Days	0.0	0.0	0.0	0.0
Receivables Days	18.8	17.8	16.8	15.8
Payables Days	117.5	105.5	90.5	80.5

Source Company data, I-Sec research



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