

**Rating: Subscribe**

**Issue Offer**

**Fresh Issue of 16,363,636,363 equity shares up to INR 1,18,000 Mn**

**Issue Summary**

Price Band (INR)	10 – 11
Face Value (INR)	10
Implied Market Cap (INR Mn)	7,31,318
Market Lot	1,298
Issue Opens on	Apr 18, 2024
Issue Close on	Apr 22, 2024
No. of share pre-issue	50,119,820,375
No. of share post issue	66,483,456,738
Listing	NSE / BSE

**Issue Break-up (%)**

QIB Portion	≤50
NII (HNI) Portion	≥35
Retail Portion	≥15

**Book Running Lead Managers**

Axis Capital Limited

Jefferies India Private Limited

SBI Capital Markets Limited

**Registrar**

Link Intime India Private Limited

**Shareholding Pattern**

	Pre-Issue	Post-Issue
Promoters	48.75%	36.87%
Public & Others	51.25%	63.13%

**Objects of the issue**

- Purchase of equipment for the expansion of the network infrastructure.
- Payment of certain deferred payments for spectrum to the DoT and the GST thereon.
- General corporate purposes.

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Vodafone Idea Ltd is the third largest telecommunications service provider in India based on subscriber base. The company offers services such as voice, data, enterprise and other value-added services including short messaging services and digital services across 2G, 3G and 4G technologies. The company holds active licenses for national long distance (NLD), International long distance (ILD) and internet service provider (ISP) and registration for infrastructure provider (IP-1) services. As of December 2023, the company's applicable gross revenue (ApGR) market share was 17.79% of the Indian mobile telecommunications services industry and had over 223 Mn subscribers and a subscriber market share of 19.3%.

**Investment Rationale**

**Enhancing network capacity for 4G and advancing towards 5G technologies:** The company plans to improve its 4G coverage and capacity by refarming its existing 2G and 3G spectrum to 4G, resulting in additional 4G sites with minimal capital expenditure. The company is also deploying various advanced 5G technologies, including Massive MIMO sites for improved capacity, DSR for efficient user management, ORAN for increased flexibility, and core network cloudification for enhanced efficiency and agility. They aim to further expand its LTE 900 and 2,100 MHz spectrum presence across 14 service areas.

**Collaborations driving improved customer experience:** The company has entered into collaborations with various partners, including content providers, entertainment providers, financial institutions, network and IT vendors, and e-commerce players. The company's entertainment and media collaborations support ARPU growth through the delivery of an enhanced user experience and its integrated platform offers innovative solutions such as the Vi App and Vi Movies and TV platform.

**ARPU maximization:** The company aims to expand its 4G network footprint in rural and semi-urban growth markets and enhance its average revenue per user (ARPU) by providing an improved network experience in its existing markets. It also plans to enter into strategic collaborations to develop and implement new products and services and scale up the share of its primary SIM in covered geographies. The company also aims to incentivize 2G handset users to upgrade to smartphones through targeted campaigns and collaborations with non-banking financial companies.

**Comprehensive spectrum and infrastructure portfolio for next-gen services:** The company has a spectrum portfolio with 8,005.2 MHz of spectrum holdings across different frequency bands, including the mid-band 5G spectrum (3300 MHz band) in 17 priority service areas and mmWave 5G spectrum (26 GHz band) in 16 service areas. This spectrum enables the company to offer a superior experience to its customers, with the highest 4G spectrum available per million subscribers and the capability to support the migration of its entire 4G subscriber base to 5G.

**Outlook and Valuation**

**Over the last few years, the company has continued to incur significant losses due to high finance costs, depreciation and amortization expenses. The company has also faced challenges related to regulatory disputes, such as the one-time spectrum charges and AGR dues, which have impacted its financial performance. Despite the company's intention to use the net proceeds from the FPO to expand network infrastructure and repay loans, the funds raised will be significantly less than what is needed to effectively improve business performance. Going forward, the company's ability to improve its operational efficiency, effectively manage its debt obligations and resolve regulatory issues will be crucial in determining its financial sustainability and future growth prospects. At the upper price band of INR 11, the issue is valued at EV/EBITDA of 16.28x based on FY23 EBITDA of INR 1,68,170 Mn. We are recommending "Subscribe" rating for aggressive investors.**

## Financial Statements

## Income statement summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
<b>Revenue</b>	<b>4,19,522</b>	<b>3,85,155</b>	<b>4,21,772</b>
Operating expenses	2,15,721	1,98,897	2,26,065
Gross profit	2,03,801	1,86,258	1,95,707
Gross margin (%)	48.6%	48.4%	46.4%
Employee Cost	20,300	17,351	18,663
Other expenses	14,044	8,546	8,874
<b>EBITDA</b>	<b>1,69,457</b>	<b>1,60,361</b>	<b>1,68,170</b>
<b>EBITDA Margin (%)</b>	<b>40.4%</b>	<b>41.6%</b>	<b>39.9%</b>
Depreciation & Amortisation	2,36,385	2,35,843	2,30,497
Interest expenses	1,79,981	2,09,808	2,33,543
Other Income	1,742	1,294	3,113
Share of profit/loss of Associate & JV	2,314	12	5
Profit before exceptional item and tax	-2,42,853	-2,83,984	-2,92,752
Exceptional item	-1,99,681	1,643	-224
Tax	-203	113	35
<b>PAT</b>	<b>-4,42,331</b>	<b>-2,82,454</b>	<b>-2,93,011</b>
<b>PAT Margin (%)</b>	<b>-105.4%</b>	<b>-73.3%</b>	<b>-69.5%</b>
Reported EPS	-15.4	-9.83	-8.43

## Cashflow summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
<b>Profit/loss before tax</b>	<b>-4,42,534</b>	<b>-2,82,341</b>	<b>-2,92,976</b>
<b>Adjustments: Add</b>			
Depreciation and amortisation	2,36,385	2,35,843	2,30,497
Interest adjustment	1,79,981	2,09,808	2,33,543
<b>Working Capital adjustment</b>			
Inventories	19	-17	-140
Trade receivables	3,136	-383	1,847
Trade payables	5,522	-3,432	-2,477
Other Liabilities and provisions	-16,286	30,476	-3,581
Other Assets	-6,836	-30,051	10,626
Taxes	7,903	14,695	13,449
<b>Net cash from operating activities</b>	<b>1,56,397</b>	<b>1,73,870</b>	<b>18,88,687</b>
Net Sale/(Purchase) of tangible assets	-47,097	-60,089	-39,422
Net Sale/(Purchase) of investments	4,952	180	290
Others	52,896	2,606	-15,004
<b>Net cash (used) in investing activities</b>	<b>10,751</b>	<b>-57,303</b>	<b>-54,136</b>
Interest expense	-28,256	-27,997	-20,940
Other financing activities	-1,39,058	-77,541	-1,25,855
<b>Net cash (used) in financing activities</b>	<b>-1,67,314</b>	<b>-1,05,538</b>	<b>-1,46,795</b>
<b>Closing Balance</b>	<b>3,503</b>	<b>14,532</b>	<b>2,288</b>

## Balance sheet summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Equity share capital	2,87,354	3,21,188	4,86,797
Other equity	-6,69,634	-9,40,836	12,30,388
<b>Net worth</b>	<b>-3,82,280</b>	<b>-6,19,648</b>	<b>-7,43,591</b>
Debt	20,17,202	21,37,611	23,77,660
Other non-current liabilities	68,094	73,915	71,220
<b>Total Liabilities</b>	<b>20,34,806</b>	<b>19,40,291</b>	<b>20,72,427</b>
Total funds Employed	16,52,526	13,20,643	13,28,836
Application of fund			
Fixed assets	16,75,008	15,68,643	17,38,371
Capital work-in-progress	10,99,200	10,31,859	9,64,341
Other non-current assets	1,35,484	1,11,562	1,03,523
<b>Current Assets</b>	<b>1,40,342</b>	<b>1,68,355</b>	<b>1,38,536</b>
Inventory	6	23	163
Debtors	25,070	24,439	21,640
Other current assets	93,754	1,08,927	1,08,672
Cash and Cash equivalent	22,165	34,966	8,554
<b>Current liabilities /Provision</b>	<b>6,64,025</b>	<b>6,11,339</b>	<b>6,00,227</b>
Creditors	1,32,757	1,31,699	1,35,364
Liabilities	1,97,765	2,15,862	2,30,716
<b>Total assets</b>	<b>20,34,806</b>	<b>19,40,291</b>	<b>20,72,427</b>

## Ratio Analysis

Y/e 31 Mar	FY21	FY22	FY23
Revenue growth	-	-8.19%	9.51%
Op Profit growth	-	-5.37%	4.87%
<b>Profitability ratio (%)</b>			
OPM	40.39%	41.64%	39.87%
Net Profit margin	-105.44%	-73.34%	-69.47%
ROCE	-4.88%	-5.68%	-4.23%
<b>Per share ratio (INR)</b>			
Reported EPS	-15.40	-9.83	-8.43
EPS (Post Issue shares)	-6.65	-4.25	-4.41
Book value per share	-5.75	-9.32	-11.19
Valuation ratio (x)			
P/E	-1.65	-2.59	-2.49
P/B	-1.91	-1.18	-0.98
EV/EBITDA	14.83	16.25	16.28
<b>Payout (%)</b>			
Tax payout	0.08%	-0.04%	-0.01%
<b>Liquidity ratio</b>			
Debtor days	21.81	23.16	18.73
Inventory days	0.01	0.04	0.26
Creditor days	2.15	1.56	1.71
WC days	19.68	21.64	17.28

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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