

RETAIL EQUITY RESEARCH

Vodafone Idea Ltd.

Telecom

SENSEX: 72,944

NIFTY: 22,148

SUBSCRIBE

Price Range Rs.10- Rs.11

Scaling networks via strategic expansion...

Vodafone Idea Limited (VIL), formed through a partnership between the Aditya Birla Group and Vodafone Group, stands as India's foremost telecom service provider. Offering nationwide voice and data, enterprise, and other value-added services across 2G, 3G, and 4G platforms, the company boasts a diverse spectrum portfolio to meet the escalating demands for connectivity. Listed on both NSE and BSE, Vodafone Idea continues to shape the telecommunications landscape in India. As of December 31, 2023, VIL had an applicable gross revenue market share of 17.8% and a subscriber market share of 19.3%, with over 223 mn subscribers. Additionally, during the same period, VIL's network carried ~401 bn voice minutes and ~6,004 bn MB of data.

- Vi is India's 3rd largest telecom service provider by subscriber base and ranks as the 6th largest cellular operator worldwide by subscribers in a single country of operation.
- Revenue growth was mere 0.3% CAGR over FY21-23 on account of falling market share, decline in subscriber base due to lack adequate network expansion and infrastructure. Moreover, the company has faced persistent losses over previous years and carries a significant debt burden.
- From the FPO proceeds (i.e. ~70% of total proceeds) will be utilised for network expansions in 4G sites and roll out of new 5G sites, will bode well for the company.
- Going ahead, VIL is expected to be benefitted from the enhanced ARPU (average revenue per user) rate, potential tariff hikes in the telecom industry, which are anticipated to boost VI's cash flow.
- VIL's largest shareholder, the Indian government with a 32% stake, will come around to 24% post equity dilution via FPO.
- At the upper price band of Rs.11, the issue is offered at 14.7% discount to the last closing price of Rs.12.9 (16th April 2024).
- Considering the near-term risks of continued losses, subscriber attrition due to lack of expansion of 4G services compared to its peers, VIL is a high risk proposition in the short to medium-term. The long-term outlook will depend on the restructure of the debt and expansion in 4G & 5G offerings. Given the strong parentage support, we assign the subscribe rating for high risky investors on a long-term basis.

Purpose of IPO

The FPO consists of a fresh issue of Rs. 18,000cr only. The proceeds from its fresh issuance worth Rs.12,750cr will be utilised to expand network infrastructure, Rs.2,175cr for deferred spectrum payments and associated GST, and remaining for general corporate purposes.

Key Risks

- Shrinking market share and High debt level.
- VIL incurred losses during recent periods and uncertainty persists for long term.
- Rise in competition from other players.

Peer Valuation

Company	Mcap(₹ cr)	Sales (₹ cr)	EBITDA(%)	PAT (%)	EPS(₹)	RoE (%)	Mcap/Sales (x)	P/E(x)	EV/EBITDA(x)	ARPU(₹)	CMP
Vodafone Idea	62,943	42,177	40	-69.5	-4.4	-	1.7	-	15.6	135	13
Bharti Airtel	69,0522	97,864	52	6.0	15.1	11.6	7.1	81.1	11.2	193	1,225
Bharti Hexacom	42,928	6579	44	8.3	11.0	13.0	6.5	73.3	16.0	185	806

Source: Geojit Research, Bloomberg; Valuations of VIL are based on upper end of the price band (post issue), Financials as per FY23 consolidated.

Issue Details	
Date of opening	April 18, 2024
Date of closing	April 22, 2024
Total No. of shares offered (cr.)	1,636
Post Issue No. of shares (cr)	6,648.3
Price Band	₹10- ₹11
Face Value	₹10
Bid Lot	1,298 Shares
Minimum application for retail (upper price band for 1 lot)	₹ 14,278
Maximum application for retail (upper price band for 14 lot)	₹ 1,99,892
Listing	BSE,NSE
Lead Managers	SBI Capital Market, Axis Capital, Jefferies India.
Registrar	Link Intime India Pvt. Ltd

Issue size (upper price)	Rs.cr
Fresh Issue	18,000
OFS	-
Total Issue	18,000

Shareholding (%)	Pre-Issue	Post Issue
Promoter & Promo. Group.	48.8	36.9
Public & Others	51.2	63.1
Total	100.0	100.0

Issue structure	Allocation (%)	Size Rs.cr
Retail	35	6,300
Non-Institutional	15	2,700
QIB	50	9,000
Total	100	18,000

Y.E March (Rs cr) Consol.	FY22	FY23	9MFY24
Sales	38,515.5	42,177.2	32,044.9
Growth (%)	-8.2	9.5	-
EBITDA	16,036.1	16,817.0	12,790.2
Margin(%)	42	40	40
PAT Adj.	-28,245.4	-29,301.1	-23,563.8
Growth (%)	-36.1	3.7	-
EPS	-4.2	-4.4	-3.5
P/E(x)	-	-	-
EV/EBITDA (x)	17.9	18.5	24.5
RoE (%)	-	-	-

*Annualised

Business Description:

Products and Services:

VIL has a Pan-India network and offer mobile telecommunication services in 22 service areas. The pre-paid mobile telecommunications services cater to retail subscribers while the postpaid mobile telecommunications services cater to both retail and enterprise subscribers. They also offer mobile broadband in all 22 service areas.

Voice Services: The voice service coverage includes over 1.2 billion individuals in more than 487,000 towns and villages in India. We also offer 4G and voice over LTE (VoLTE) services across all 22 service areas to provide an enhanced voice experience to our 4G subscribers with VoWiFi in several service areas.

Data Service: As of December 31, 2023, the broadband coverage is available in over 342,200 towns and villages in India with a coverage of more than a one billion individuals.

Other Value-Added Services: other VAS offerings include digital content on the Vi App or Vi Movies and TV platform.

Enterprise Solutions: VIL also provide additional services to the enterprise customers through the enterprise business unit.

Key Strengths:

◆ Large Subscriber Base

As of December 31, 2023, Vodafone Idea ranked as India's third largest telecom provider by subscriber base, with over 223.0 million subscribers, representing a 19.3% market share. The company held a 17.79% applicable gross revenue market share in the Indian mobile telecommunications industry. Notably, Vodafone Idea led in ApGR market share in Kerala and Mumbai and ranked second in Gujarat and Kolkata. Additionally, it commanded over 20% market share in Maharashtra, Delhi, Uttar Pradesh (West), and Haryana.

◆ Extensive Telecommunication Network

VIL's spectrum portfolio encompasses 8,005.2 MHz across various frequency bands, with 7,975.2 MHz being liberalized, suitable for deploying any technology—2G, 3G, 4G, or 5G. This includes mid-band 5G spectrum (3300 MHz band) in 17 priority service areas and mm Wave 5G spectrum (26 GHz band) in 16 service areas. As of December 31, 2023, company operate around 183,400 unique tower locations, spanning over 487,000 towns and villages in India. The broadband services (3G and 4G) are available through more than 438,900 units, reaching over a billion people. Additionally, 4G population coverage has expanded significantly since the merger, from 530 million for Vodafone and 655 million for Idea prior to the merger, to over 1 billion Indians as of December 31, 2023.

◆ Existing Network Built on 5G-Ready Architecture

The 4G network is strategically designed with a future-ready architecture, featuring over 90% of TDD (Time Division Duplex) 2500 MHz band radio units and all new basebands being 5G-ready, equipped with 10G bandwidth capability. Advanced 5G technologies such as Massive MIMO and ORAN have been deployed to enhance capacity and flexibility. As of December 31, 2023, VIL has installed 74,800 TDD radios, 13,900 Massive MIMO sites, and 13,000 small cells. Additionally, VIL has fulfilled minimum rollout obligations in Maharashtra, Delhi, Tamil Nadu, and Punjab through collaboration with OEMs.

◆ Large Enterprise Customer Base with Longstanding Relationships

VIL offers a diversified portfolio of business services to enterprise clients which include global enterprises, corporates, SMEs, government organizations, small-offices and home-offices, and startups. According to the Frost & Sullivan 'Enterprise Mobile Services Quarterly Tracker' Report, September 2023 ("F&S September 2023 Report"), the enterprise mobility market share of the company is ~29.9% for 6MFY23. During this period, the IoT services revenue market share of the company is ~30.3%.

◆ Extensive Distribution and Service Network

As of December 31, 2023, the extensive distribution and service network encompassed over 10,000 distributors catering to ~787,000 retailers nationwide. The urban presence includes ~2,300 branded stores, comprising both company-owned and franchisee-operated establishments, spanning over 95% of all districts in India.

Key business Strategies:

◆ Focused investments to drive coverage and capacity expansion.

VIL maintains a focused investment strategy and aims to enhance their competitiveness in 17 key service areas, which together contributed ~98% of revenue during FY23. Focuses on improving 4G coverage and capacity and deploying 5G Technologies. VIL is dedicated to enhancing the network infrastructure to meet the increasing demand for data connectivity and offering 5G technology to its customers and aims to cover 40% of current revenues within 24 to 30 months post-funding.

◆ Initiatives to improve the Average Revenue Per User and Customer Retention

VIL aims to expand the 4G network footprint in rural and semi-urban growth markets and enhance the average revenue per user (ARPU) by providing an improved network experience in existing markets. As of December 31, 2023, 42% of the subscriber base is still non-4G. This presents an opportunity for migrating the subscriber base to higher-value plans that offer enhanced functionality and unlimited data. Despite India's high per-user data consumption, its average revenue per user (ARPU) has been lower compared to major countries worldwide in the Financial Years 2021, 2022, and 2023, as per GSMA Intelligence Database. This situation highlights an opportunity for future growth, emphasizing the need for strategic price adjustments to ensure higher return on invested capital and support future investments.

Industry outlook

The mobile telecommunications industry is an integral part of the Indian economy and has contributed to the economic growth and the GDP of the country. The mobile telecommunications industry in India is divided into 22 service areas – three metro service areas, and 19 other service areas. These other service areas are further categorized into circles based on the relevant degree of affluence, infrastructure development and revenue potential across each service area. Furthermore, mobile broadband is the primary medium to access internet in India, and penetration of smartphones in India has been increasing.

KPIs with Industry Peers	VI	AIRTEL	JIO
Subscriber Market Share	19%	36%	41%
Revenue Market Share	17%	37%	39%
Average Revenue Per User (ARPU) (Rs.)	145	208	182
Customer base for mobile services (in mn)	215.2	345.6	470.9

Source: RHP, Geojit Research.

Promoter and promoter group

The Promoters of the company are Mr. Kumar Mangalam Birla, Hindalco Industries Limited, Grasim Industries Limited, Birla TMT Holdings Private Limited, Vodafone International Holdings B.V., Al-Amin Investments Limited, Asian Telecommunication Investments (Mauritius) Limited, CCI (Mauritius), Inc., Euro Pacific Securities Ltd, Vodafone Telecommunications (India) Limited, Mobilvest, Prime Metals Ltd, Trans Crystal Ltd, Omega Telecom Holdings Private Limited, and Usha Martin Telematics Limited.

As on the date of this Red Herring Prospectus, the Board comprises of twelve Directors, including a Non-Executive Chairman, five Non-Executive Directors and six Independent Directors (including one-woman Independent Director).

Brief Biographies of directors

- Ravinder Takkar, is the Non-Executive Chairman of the company.
- Anjani Kumar Agrawal, is an Independent Director of the company.
- Arun Kumar Adhikari, is an Independent Director of the company.
- Ashwani Windlass, is an Independent Director of the company.
- Himanshu Kapania, is a Non-Executive Director of the company.
- Krishnan Ramachandran, is an Independent Director of the company.
- Kumar Mangalam Birla, the chairman of the Aditya Birla group, is a Non-Executive Director of the company.
- Neena Gupta is an Independent Director of the company.
- Sateesh Govinda Kamath, is a Non-Executive Director of the company.
- Sunil Sood, is a Non-Executive Director of the company.
- Suresh Choithram Vaswani, is an Independent Director of the company.
- Sushil Agarwal, is a Non-Executive Director of the company.

CONSOLIDATED FINANCIALS

PROFIT & LOSS

Y.E March (Rs cr)	FY22	FY23	9MFY24
Sales	38,515.5	42,177.2	32,044.9
% change	-8.2	9.5	-
EBITDA	16,036.1	16,817.0	12,790.2
% change	-5	5	-
Depreciation	23,584.3	23,049.7	16,882.2
EBIT	-7,548.2	-6,232.7	4,092.0
Interest	20,980.8	23,354.3	19,485.2
Other Income	129.4	311.3	80.7
Exceptional items	166	-22	753
PBT	-28,234.1	-29,297.6	-22,743.9
% change	-36	3.8	-
Tax	11.3	3.5	819.9
Tax Rate (%)	-	-	-
Reported PAT	-28,245.4	-29,301.1	-23,563.8
Adj	-	-	-
Adj. PAT	-28,245.4	-29,301.1	-23,563.8
% change	-	-	-
Post issue No. of shares (cr)	6,648.3	6,648.3	6,648.3
Adj EPS (Rs)	-4.2	-4.4	-3.5
% change	-	-	-

BALANCE SHEET

Y.E March (Rs cr)	FY22	FY23	9MFY24
Cash	3,496.6	855.4	818.0
Accounts Receivable	2,443.9	2,164.0	2,246.4
Inventories	2.3	16.3	1.9
Other Cur. Assets	10,817.1	10,827.8	10,411.6
Investments	8,930.1	8,895.3	7,159.5
Deff. Tax Assets	6.0	13.5	14.4
Net Fixed Assets	53,632.7	59,821.1	54,410.3
CWIP	323.9	300.3	556.1
Intangible Assets	1,03,226.3	1,14,010.2	1,07,589.2
Other Assets	11,150.2	10,338.8	75,94.4
Total Assets	1,94,029	2,07,243	1,90,802
Current Liabilities	20,771.7	21,237.5	22,323.7
Provisions	7,500.5	7,242.6	11,460.5
Debt Funds	2,13,761.1	2,37,766.0	2,40,137.8
Other Fin. Liabilities	13,960.6	1,53,557	14,286.2
Deferred Tax liability	-	-	-
Equity Capital	32,118.8	48,679.7	48,679.7
Reserves & Surplus	-94,083.6	-1,23,038.8	-1,46,611.6
Shareholder's Fund	-61,964.8	-74,359.1	-97,931.9
Total Liabilities	1,94,029	2,07,243	1,90,802
BVPS (Rs)	-9.3	-11.2	-14.7

CASH FLOW

Y.E March (Rs cr)	FY22	FY23	9MFY24
PBT Adj.	-28,234.1	29,297.6	22,743.9
Non-operating & non cash adj.	44,492.3	46,194	35,634.5
Changes in W.C	1,128.8	1,972.4	2,993.2
C.F.Operating	17,387	18,868.6	15,883.8
Capital expenditure	5,701.2	3,856.5	1,304
Change in investment	-	-	-
Sale of investment	-	-	-
Other invest.CF	-29.1	-1557.1	-387.8
C.F - investing	5,730.3	5,413.6	1,691.9
Issue of equity	4,499.7	432.0	-
Issue/repay debt	15,053.5	15,111.5	-14,102
Dividends paid	-	-	-
Other finance.CF	-	-	-
C.F - Financing	-10,553.8	-14,679.5	-14,101.8
Change. in cash	1,102.9	1,224.3	90.1
Opening Cash	350.3	1,453.2	228.80
Closing cash	1,453.2	228.9	318.9

RATIOS

Y.E March	FY22	FY23	9MFY24
Profitab. & Return			
EBITDA margin (%)	42	40	40
EBIT margin (%)	-19.6	-14.8	-12.8
Net profit mgn.(%)	-73.3	-69.5	-73.5
ROE (%)	-	-	-
ROCE (%)	-	-	-
W.C & Liquidity			
Receivables (days)	23	20	20
Inventory (days)	-	-	-
Payables (days)	125	117	117
Current ratio (x)	0.9	0.8	0.6
Quick ratio (x)	0.3	0.1	0.1
Turnover &Levg.			
Net asset T.O (x)	0.7	0.7	0.6
Total asset T.O (x)	0.2	0.2	0.2
Int. covge. ratio (x)	-0.4	-0.4	-0.2
Adj. debt/equity (x)	-3.4	-3.2	-2.5
Valuation ratios			
EV/Sales (x)	7.4	7.4	9.8
EV/EBITDA (x)	17.9	18.5	18.4*
P/E (x)	-2.6	-2.5	-3.1
P/BV (x)	-1.2	-1.0	-0.7

*Annualised

DISCLAIMER & DISCLOSURES

Certification

I, Sheen G, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

For General disclosures and disclaimer: Please Visit : <https://www.geojit.com/research-disclosures#fundamental-research>

Regulatory Disclosures:

Group companies of Geojit Financial Services Limited are Geojit Technologies Private Limited (Software Solutions provider), Geojit Credits Private Limited (NBFC), Geojit Investment Limited (financial Services Company (yet to start operations)), Geojit Techloan Private Ltd (P2P lending (yet to start operations)), Geojit IFSC Ltd (a company incorporated under IFSC Regulations(yet to start operations)), Qurum Business Group Geojit Securities LLC (a joint venture in Oman engaged in Financial Services), Barjeel Geojit Financial Services LLC (a joint venture in UAE engaged in Financial Services), Aloula Geojit Capital Company (a joint venture in Saudi Arabia (Under Liquidation)) and BBK Geojit Securities Co. K.S.C.C (a subsidiary in Kuwait-engaged in Financial services). In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc. that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership:

Geojit confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership of 1% or more in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

(i) He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

(ii) He, his associates and his relatives have no actual/beneficial ownership of 1% or more in the subject company covered.

2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company. (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Sheen G, Research Analyst (s) of Geojit have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither Geojit/its Analysts have engaged in market making activities for the subject company.

6. "Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors."

7. Standard Warning: "Investment in securities market are subject to market risks. Read all the related documents carefully before investing."

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com. **Compliance officer:** Ms. Indu K. Address: Geojit Financial Services Limited, 34/659 P, Civil Lane Road, Padivattom, Kochi - 682024; Phone: +91 484-2901367; Email: compliance@geojit.com. **For grievances: Grievance Officer:** Mr Nitin K; Address: Geojit Financial Services Limited,34/659 P, Civil Lane Road, Padivattom, Kochi - 682024; Phone: +91 484-2901363; Email: grievances@geojit.com. Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226.

