

Retail Equity Research

Vodafone Idea Limited

Telecommunication Services

BSE CODE: 532822

NSE CODE: IDEA

Bloomberg CODE: IDEA:IN

SENSEX: 36,977

REDUCE

12M Investment period

Rating as per Large Cap

CMP Rs. 5.7

TARGET Rs. 5.4

RETURN -5%

(Closing: 06-08-19)



Sequentially weak results

Vodafone Idea Limited operates as a telecom service provider. The Company offers 2G, 3G, and 4G mobile services, as well as mobile payments, advanced enterprise offerings, and entertainment.

- **Topline declined 4.3% QoQ in Q1FY20, with increased churn of the low ARPU users and down trading of high ARPU customers.**
- **Overall subscriber base decreased 4.2% QoQ, despite lower average churn rate of 3.7% (vs. 7.2% in Q4FY19), as most churn came from low-end ARPU customers.**
- **ARPU improved slightly by 3.8% QoQ to Rs. 108, primarily driven by the low-end customer disconnections following the introduction of service validity vouchers.**
- **EBITDA margin of 32.4% (15.2% in Q4FY19) benefitted from adoption of IAS 116. However, net loss remained stable QoQ at Rs. 4,874cr.**
- **Given uncertainty around successful integration and potential downside, we recommend REDUCE rating on the stock with a target price of Rs. 5.4 based on ~8x FY21E EV/EBITDA.**

Topline impacted by reduced customer base

In Q1FY20, Company's revenue declined 4.3% QoQ to Rs. 11,270cr, primarily on decreased subscribers base (-4.2% QoQ to 320.0mn). However, 4G data subscriber base witnessed growth of 5.1% QoQ to 84.8mn in Q1FY20. Blended churn ratio during the current quarter stood at 3.7% compared to 7.2% in Q4FY19. Overall ARPU increased 3.8% QoQ to Rs. 108 in Q1FY20 primarily driven by the low-end customer disconnections following the introduction of service validity vouchers. Overall EBITDA margin improved to 32.4% from 15.2% in Q4FY19, as EBITDA grew 104.4% QoQ primarily on account of lower cost with lease rent related adjustments post adoption of IAS 116. Excluding IAS 116 effects in Q1FY20 and one-off impact in Q4FY19, EBITDA declined 22% QoQ. However, Net loss remains largely unchanged QoQ at Rs. 4,874cr as similar lease related costs were offset by higher depreciation and interest expenses.

Stabilizing operations

The acceleration of integration efforts of Vodafone and Idea business, and expectation of achieving the targeted full operating expenses synergy of Rs. 8,400cr by Q1FY21 should help the organization in stabilizing its costs and optimizing service quality. Company has removed surplus equipment from ~38,000 sites as a part of their network integration process. Separately, introduction of higher data bundles (2/2.5 GB per day) at higher prices (Rs. 229/255) are expected to augment ARPU over time.

Key concall highlights

- Completed network integration of 452 districts, ~66% of total districts.
- Reframed 2,100 megahertz spectrum from 3G to 4G in 7 circles on select locations, where the 3G traffic growth was limited as 4G traffic was increasing.
- Raised Rs. 25,000cr proceeds from a rights issue during the quarter.
- Management expects to monetize an implied value of ~Rs. 5,630cr from its 11.2% stake sale in Indus Towers to Bharti Infratel. Deal expected to close by H1FY20.

Valuation

We expect bottom-line to remain in red over the next two years. We recommend REDUCE rating on the stock amidst uncertainty around successful integration and potential downside with a target price of Rs. 5.4 based on ~7.8x FY21E EV/EBITDA.

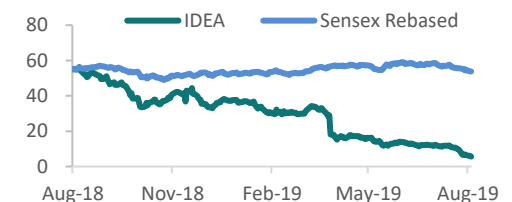
Company Data

Market Cap (cr)	Rs.16,236
Enterprise Value (cr)	Rs.118,260
Outstanding Shares (cr)	2,873.5
Free Float	21.0%
Dividend Yield	0.0%
52 week high	Rs.34.5
52 week low	Rs.5.1
6m average volume (cr)	0.9
Beta	1.3
Face value	Rs.10

Shareholding %	Q3FY19	Q4FY19	Q1FY20
Promoters	71.3	71.3	71.6
FII's	12.8	13.1	15.7
MFs/Insti	5.6	4.5	7.2
Public	1.7	1.9	2.1
Others	8.6	9.1	3.5
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-65.5%	-81.0%	-89.7%
Absolute Sensex	-4.9%	-0.7%	-2.6%
Relative Return*	-60.6%	-80.3%	-87.1%

*over or under performance to benchmark index



Consolidated (Rs. cr)	FY19A	FY20E	FY21E
Sales	37,093	44,511	46,737
Growth (%)	31.2	20.0	5.0
EBITDA	4,043	13,080	14,758
EBITDA Margin (%)	10.9	29.4	31.6
Adj. PAT	(14,604)	(14,371)	(13,511)
Growth (%)	250.4	-1.6	-6.0
Adj. EPS	-21.2	-5.0	-4.7
Growth (%)	87.5	-76.4	-6.0
P/E	n.m	n.m	n.m
P/B	0.2	0.2	0.3
EV/EBITDA	32.0	9.0	7.9
ROE (%)	-24.5	-20.5	-23.8
D/E	2.0	1.7	2.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY20	Q1FY19*	YoY Growth %	Q4FY19	QoQ Growth %
Revenue	11,270	5,889	n.a.	11,775	(4.3)
EBITDA	3,650	659	n.a.	1,785	104.4
EBITDA margins	32.4	11.2	n.a.	15.2	1,723bps
Depreciation	6,131	2,092	n.a.	4,664	31.5
EBIT	(2,481)	(1,433)	n.a.	(2,879)	13.8
Interest	(3,724)	(1,526)	n.a.	(2,946)	(26.4)
Other Income	280	141	n.a.	157	78.5
Exceptional Items	(807)	3,365	n.a.	(1,146)	29.6
PBT	(6,674)	607	n.a.	(6,759)	1.3
Tax	(1)	(16)	n.a.	(1)	(30.8)
Share of profit from Associate	58	60	n.a.	55	5.8
Minority Interest	-	-	-	-	-
Reported PAT	(4,874)	257	n.a.	(4,882)	0.2
Adjustments	-	-	-	-	-
Adjusted PAT	(4,874)	257	n.a.	(4,882)	0.2
No. of shares	2,343	546	-	690	-
EPS (Rs)	(2.1)	0.5	n.a.	(5.7)	(63.8)

*Q1FY19 figures are prior to merger with Vodafone India and hence not comparable YoY

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	-	-	44,511	46,737	-	-
EBITDA	-	-	13,080	14,758	-	-
Margins (%)	-	-	29.4	31.6	-	-
Adj. PAT	-	-	(14,371)	(13,511)	-	-
EPS	-	-	(5.0)	(4.7)	-	-



PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A*	FY20E	FY21E
Revenue	35,576	28,279	37,093	44,511	46,737
% change	(1.1)	(20.5)	31.2	20.0	5.0
EBITDA	10,276	6,048	4,043	13,080	14,758
% change	(21.1)	(41.2)	(33.1)	223.5	12.8
Depreciation	7,827	8,409	14,536	21,940	22,946
EBIT	2,449	(2,362)	(10,493)	(8,860)	(8,188)
Interest	4,041	4,813	9,463	11,727	11,223
Other Income	729	675	1,780	928	928
PBT	(863)	(6,499)	(18,175)	(19,659)	(18,483)
% change	(118.3)	652.8	179.7	8.2	(6.0)
Tax	(464)	(2,331)	(3,572)	(5,288)	(4,972)
Tax Rate (%)	53.7	35.9	19.7	26.9	26.9
Reported PAT	(400)	(4,168)	(14,604)	(14,371)	(13,511)
Adj*	-	-	-	-	-
Adj PAT	(400)	(4,168)	(14,604)	(14,371)	(13,511)
% change	(113.0)	942.8	250.4	(1.6)	(6.0)
No. of shares (cr)	360.1	369.3	690.2	2,873.5	2,873.5
Adj EPS (Rs)	(1.1)	(11.3)	(21.2)	(5.0)	(4.7)
% change	(113.0)	917.0	87.5	(76.4)	(6.0)
DPS (Rs)	-	-	-	-	-
CEPS (Rs)	(1.1)	(11.3)	(21.2)	(5.0)	(4.7)

CASH FLOW

Y.E March (Rs cr)	FY17A	FY18A	FY19A*	FY20E	FY21E
Net inc. + Depn.	7,428	4,241	(68)	7,569	9,435
Non-cash adj.	2,414	1,512	0	(0)	(0)
Changes in W.C	696	(420)	23,165	(1,707)	9,253
C.F. Operation	10,537	5,332	23,097	5,863	18,688
Capital exp.	(12,632)	(8,601)	(11,347)	(15,616)	(16,297)
Change in inv.	(3,347)	(938)	-	-	-
Other invest.CF	423	267	-	-	-
C.F - Investment	(15,556)	(9,272)	(11,347)	(15,616)	(16,297)
Issue of equity	10	3,475	-	25,000	-
Issue/repay debt	8,430	2,693	-	-	-
Dividends paid	(260)	(0)	-	-	-
Other finance.CF	(3,735)	(2,243)	-	-	-
C.F - Finance	4,444	3,925	-	25,000	-
Chg. in cash	(574)	(14)	11,750	15,246	2,391
Closing cash	83	29	991	16,237	18,628

*Financials reflect the merger with Vodafone India from 31st Aug, 2018.
FY17A, FY18A and 5-months of FY19A refer to the consolidated numbers of Idea Cellular prior to the merger

BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A*	FY20E	FY21E
Cash	83	29	991	16,237	18,628
Accounts Receivable	1,314	887	3,300	3,960	4,158
Inventories	59	37	4	4	4
Other Cur. Assets	6,177	9,281	14,086	14,100	14,104
Investments	1,479	1,660	1,597	1,597	1,597
Gross Fixed Assets	31,565	38,730	50,077	65,694	81,991
Net Fixed Assets	22,844	24,455	50,253	41,882	33,185
CWIP	1,330	651	2,359	2,406	2,454
Intangible Assets	60,124	58,171	130,225	132,225	134,225
Def. Tax (Net)	37	1,205	10,339	15,308	14,392
Other Assets	3,258	2,200	16,547	16,547	16,547
Total Assets	96,705	98,577	229,700	244,265	239,294
Current Liabilities	17,027	10,809	50,118	54,031	62,576
Provisions	384	311	347	347	347
Debt Funds	51,673	56,963	118,262	118,262	118,262
Other Liabilities	2,889	3,232	1,339	1,361	1,357
Equity Capital	3,605	4,359	8,736	28,736	28,736
Reserves & Surplus	21,127	22,903	50,899	41,529	28,017
Shareholder's Fund	24,732	27,262	59,635	70,264	56,753
Minority Interest	-	-	-	-	-
Total Liabilities	96,705	98,577	229,700	244,265	239,294
BVPS (Rs)	68.7	73.8	86.4	24.5	19.8

RATIOS

Y.E March	FY17A	FY18A	FY19A*	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	28.9	21.4	10.9	29.4	31.6
EBIT margin (%)	6.9	(8.4)	(28.3)	(19.9)	(17.5)
Net profit margin (%)	(1.1)	(14.7)	(39.4)	(32.3)	(28.9)
ROE (%)	(1.6)	(15.3)	(24.5)	(20.5)	(23.8)
ROCE (%)	3.2	(2.8)	(5.9)	(4.7)	(4.7)
W.C & Liquidity					
Receivables (days)	13.3	11.3	32.0	32.0	32.0
Inventory (days)	1.1	0.8	0.1	0.1	0.1
Payables (days)	77.2	79.1	181.2	244.8	244.8
Current ratio (x)	0.4	0.9	0.3	0.6	0.6
Quick ratio (x)	0.4	0.6	0.2	0.5	0.4
Turnover & Leverage					
Gross asset T.O (x)	0.9	0.8	0.8	0.8	0.6
Total asset T.O (x)	0.4	0.3	0.2	0.2	0.2
Int. covge. ratio (x)	0.6	(0.5)	(1.1)	(0.8)	(0.7)
Adj. debt/equity (x)	2.1	2.1	2.0	1.7	2.1
Valuation					
EV/Sales (x)	2.0	2.6	3.5	2.7	2.5
EV/EBITDA (x)	6.8	12.2	32.0	9.0	7.9
P/E (x)	n.m	n.m	n.m	n.m	n.m
P/BV (x)	0.8	0.6	0.2	0.2	0.3

Recommendation Summary



Dates	Rating	Target
7-Aug-19	REDUCE	5.4

Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

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Neutral- The analyst has no investment opinion on the stock under review

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