

# Vodafone Idea

Estimate change	↔
TP change	↔
Rating change	↔

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Bloomberg	IDEA IN
Equity Shares (m)	28,735
M.Cap.(INRb)/(USD\$)	171.6 / 2.3
52-Week Range (INR)	14 / 5
1, 6, 12 Rel. Per (%)	-41/-56/-80
12M Avg Val (INR M)	3768

## Financials & Valuations (INR b)

INR Billion	FY21	FY22E	FY23E
Net Sales	420	379	431
EBITDA	169	160	198
Adj. PAT	-243	-290	-315
EBITDA Margin (%)	40.4	42.3	46.1
Adj. EPS (INR)	-8.4	-10.1	-11.0
EPS Gr. (%)	11.7	19.5	8.5
BV/Sh. (INR)	-13.3	-23.3	-34.3

## Ratios

Net D:E	-4.3	-2.7	-2.0
RoE (%)	150.5	55.1	38.0
RoCE (%)	-5.5	-6.9	-5.4
Payout (%)	0.0	0.0	0.0

## Valuations

EV/EBITDA (x)	11.2	12.7	11.4
P/E (x)	-1.1	-0.9	-0.8
P/B (x)	-0.7	-0.4	0.0
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	5.8	3.3	1.1

## Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	72.1	72.1	72.1
DII	1.3	1.1	3.6
FII	4.3	4.6	7.2
Others	22.4	22.3	17.1
FII Includes depository receipts			

**CMP: INR6 TP:INR5 (-16%) Neutral**

## Fall in earnings continues; needs immediate liquidity support

- Adjusted EBITDA (excluding one-offs on pre Ind AS 116) stood at INR12.8b v/s INR17.1b QoQ. This was attributed to the sharp subscriber churn due to the COVID-led lockdown and fall in ARPUs.
- With EBITDA (pre-Ind AS 116) of INR38.5b in 2HFY22E, it will be challenging to invest in growing its network and service upcoming repayments of: a) INR64.7b NCDs in FY22, b) INR82b deferred spectrum payment, and c) AGR installment. A capital raise or government relief package remains critical to provide immediate liquidity support to service the ballooning net debt of INR1,907b (including AGR liabilities). We maintain our **Neutral** rating.

## Adjusted EBITDA declined sharply to INR12.8b v/s INR17.1b in 4QFY21 on subscriber/ARPU weakness

- Revenue declined by 4.7% QoQ to INR91.5b (2.5% miss) on account of the slowdown in economic activity due to lockdown restrictions in most districts during the second COVID wave. ARPU/subscriber fell 2.8%/4.6% QoQ. The management attributed it to disrupted economic activity and restricted store timings.
- Reported EBITDA fell 15.9% QoQ to INR37.1b (7% miss) as network expenses grew 17% QoQ. Adjusted for INR1b one-off, pre Ind AS 116 EBITDA declined sharply to INR12.8b v/s INR17.1b in 4QFY21.
- Net loss stood at INR73.2b v/s INR70.2b in 4QFY21 (11.4% miss). Adjusted net loss (for exceptional) stood at INR74.9b, a 24% QoQ increase (14.2% above our estimate).
- VIL's overall/active subscriber loss widened to 12.4m/14m (~5%) to 255.4m. This is much greater than the 1-2m fall seen in the last two quarters, and is in line with the 11.3m decline in 1QFY21 (previous lockdown).
- Data/4G subscribers too declined, though at a slow pace, by 4m/1m after seeing a growth in the last three quarters
- ARPU, at INR104, saw a 2.8% QoQ decline.
- Capex spend in 1QFY22 fell to INR9.4b v/s INR15.4b/INR41.5b in 4Q/FY21. In comparison, Bharti India's mobile capex was ~4x at INR43.7b in 1QFY22.
- Net debt stood at INR1,906.7b, with a cash balance of a mere INR9.2b. Gross debt (excluding lease liabilities) stood at INR1,915.9b, of which deferred spectrum debt is INR1,060.1b. AGR liability stood at INR621.8b, while bank debt stood at INR234b. This has increased by INR107b since 4QFY21 due to: a) accounting of interest accrued, but not due, towards deferred spectrum liabilities and AGR, and b) recent spectrum purchases.

## Highlights from the management commentary

- VIL is focusing on investments in 16 priority circles, which contribute 94% of revenue.
- Focus on high ARPU subscribers:** It aims to scale up higher ARPU subscriber programs in partnership with OEMs and NBFCs for 4G devices.

- **Tax refund:** It received INR10b in the form of tax refunds in 1QFY22. The balance receivable now stands at INR58b.
- **Tariff change:** The company increased tariffs on entry-level corporate postpaid/prepaid plans to INR299/INR79 from INR199/INR49.
- It is generating positive cash from operations to meet its repayments and capex requirements. It is engaging with investors for new funding, and is conducting parallel discussions with bondholders for refinancing.

#### Valuation and view

- The fall in subscribers and subsequently revenue is disproportionately hurting EBITDA due to the high fixed cost nature of the business, with inflationary cost increases. This is making any tariff hike too difficult to fill the gap of cash requirements.
- VIL's weak liquidity position may force it to rationalize network investments, as is evident from reducing capex intensity and intensifying subscriber churn.
- The management said it is in discussion with potential investors for the stated INR250b fund raise, but the timeline remains unclear.
- A capital raise or government relief package remains critical to provide immediate liquidity support to service the ballooning net debt of INR1,907b (including AGR liabilities).
- With EBITDA (pre-Ind AS 116) of INR38.5b in 2HFY22E, it will be challenging to invest in growing its network and service upcoming repayments of: a) INR64.7b NCDs in FY22, b) INR82b deferred spectrum payment, and c) AGR installment.
- The only silver lining, as the management indicated, is the recovery in its subscriber base post the lifting of the lockdown in Jun'21.
- The significant amount of cash required to service its debt, leaves limited upside opportunity for equity holders, despite the high operating leverage opportunity from any source of ARPU increase. The current low EBITDA would make it a challenge to service debt without external fund infusion. Assuming 9x EV/EBITDA, with INR1,907b net debt (excluding lease liability and AGR debt), it leaves limited opportunity for equity shareholders. We maintain our **Neutral** rating.

#### Consolidated quarterly earnings model

Consolidated quarterly earnings model											(INR m)		
Y/E March	FY21					FY22			FY21	FY22E	FY22E	Var.	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE					
Revenue	1,06,593	1,07,912	1,08,941	96,076	91,523	92,015	95,633	99,409	4,19,522	3,78,580	93,878	-2.5	
YoY Change (%)	-5.4	-0.5	-1.8	-18.3	-14.1	-14.7	-12.2	3.5	-6.7	-9.8	-15.3		
Total Expenditure	65,609	66,388	66,079	51,989	54,446	53,955	54,408	55,531	2,50,065	2,18,340	54,012	0.8	
EBITDA	40,984	41,524	42,862	44,087	37,077	38,060	41,225	43,878	1,69,457	1,60,240	39,866	-7.0	
YoY Change (%)	12.3	24.1	25.3	0.7	-9.5	-8.3	-3.8	-0.5	13.6	-5.4	-2.7	250	
Depreciation	59,757	60,286	58,241	58,101	60,098	60,447	60,903	60,946	2,36,385	2,42,394	58,221	3.2	
Share in Profits from Associates	889	857	570	-2	5	5	5	5	2,314	21	-2	-345.1	
Net Finance Costs	37,486	46,609	47,480	46,664	51,949	51,949	51,949	51,949	1,78,239	2,07,796	47,532	9.3	
PBT before EO expense	-55,370	-64,514	-62,289	-60,680	-74,965	-74,331	-71,622	-69,011	-2,42,853	-2,89,929	-65,888	13.8	
Extra-Ord. expense	1,99,232	7,671	-16,965	9,743	-1,779	0	0	0	1,99,681	-1,779	0	NM	
PBT	-2,54,602	-72,185	-45,324	-70,423	-73,186	-74,331	-71,622	-69,011	-4,42,534	-2,88,150	-65,888	11.1	
Tax	-2	-3	-3	-195	5	5	5	5	-203	20	-212	-102.4	
Rate (%)	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.3	-102	
Reported PAT	-2,54,600	-72,182	-45,321	-70,228	-73,191	-74,336	-71,626	-69,016	-4,42,331	-2,88,170	-65,677	11.4	
Adj. PAT	-55,368	-64,511	-62,286	-60,485	-74,970	-74,336	-71,626	-69,016	-2,42,650	-2,89,949	-65,677	14.2	
YoY Change (%)	30.8	4.3	7.3	9.9	35.4	15.2	15.0	14.1	11.7	19.5	18.6		

E: MOFSL estimates

## Key performance indicators

Y/E March	FY21				FY22				FY21	FY22E	1Q FY22E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			
Blended ARPU (INR)	114	119	121	107	105	107	111	116	125	110	
Subscriber Base (m)	280	272	270	268	255	256	257	258	268	258	267
Data Subscribers (m)	136	138	138	140	136	147	159	171	140	171	151
Data usage/subscriber (MB)	10956	10591	10878	11666	13278	12862	13505	14180	10861	12941	12249
EBITDA Margin (%)	38.4	38.5	39.3	45.9	40.5	41.4	43.1	44.1	40.4	42.3	42.5
EBIT Margin (%)	-17.6	-17.4	-14.1	-14.6	-25.2	-24.3	-20.6	-17.2	-16.0	-21.7	-19.6
Adj. PAT Margin (%)	-51.9	-59.8	-57.2	-63.0	-81.9	-80.8	-74.9	-69.4	-57.8	-76.6	-70.0

E: MOFSL estimates

## Exhibit 1: VIL's ARPU hike requirement (INR b)

	Without funding	With funding
(Amount in INR b)	FY22	FY22
Capex	40	40
Cash Interest	25	25
Bank debt repayment	60	60
Deferred spectrum liability	165	165
AGR payment/year (20 years)	66	66
<b>Total EBITDA requirement</b>	<b>357</b>	<b>107</b>
EBITDA (pre Ind AS 116)	88	88
Incremental EBITDA required	269	19
Incremental revenue required	413	29
ARPU (INR)	111	111
Subscribers (m)	271	271
ARPU hike required (INR)	127	9
New ARPU (INR)	238	120
<b>Increase in ARPU required (%)</b>	<b>114%</b>	<b>8%</b>
Funding		250

Source: MOFSL, Company

## Exhibit 2: Debt and cash flow reconciliation (INR m)

Cash flow reconciliation (INR m)	1QFY22
EBITDA (as per Ind AS 116)	13,777
Capex	9,400
Net interest paid	4,377
Bank debt (excl. govt.)	2,34,000
Interest cost annualized	7.5%

Source: MOFSL, Company

## Exhibit 3: Debt break-up

Net debt classification	1QFY22
Spectrum debt	1,060
Market debt	234
<b>Total debt</b>	<b>1,294</b>
Cash and equivalents	9
Net Debt excluding AGR	1,285
AGR dues	622
<b>Net debt including AGR</b>	<b>1,907</b>

Source: MOFSL, Company

**Exhibit 4: Debt principal/interest repayment for FY22**

	Principal amount	Previous due date		Next due date		FY22		
		Principal	Interest	Principal	Interest	Principal	Interest	Total
Unsecured 7.57% NCDs	15,000	N.A	14 <sup>th</sup> Dec'20	13 <sup>th</sup> Dec'21	13 <sup>th</sup> Dec'21	15,000	1135.5	16,136
Unsecured 7.77% NCDs	10,000	N.A	4 <sup>th</sup> Jan'21	4 <sup>th</sup> Jan'22	4 <sup>th</sup> Jan'22	10,000	777	10,777
Unsecured 7.77% NCDs	5,000	N.A	18 <sup>th</sup> Jan'21	17 <sup>th</sup> Jan'22	17 <sup>th</sup> Jan'22	5,000	388.5	5,389
Unsecured 8.04% NCDs	20,000	N.A	27 <sup>th</sup> Jan'21	27 <sup>th</sup> Jan'22	27 <sup>th</sup> Jan'22	20,000	1608	21,608
Unsecured 8.03% NCDs	5,000	N.A	1 <sup>st</sup> Feb'21	31 <sup>st</sup> Jan'22	31 <sup>st</sup> Jan'22	5,000	401.5	5,402
Unsecured 8.03% NCDs	5,000	N.A	15 <sup>th</sup> Feb'21	14 <sup>th</sup> Feb'22	14 <sup>th</sup> Feb'22	5,000	401.5	5,402
Unsecured 10.90% NCDs	15,000	N.A	3 <sup>rd</sup> Sep'20	2 <sup>nd</sup> Sep'23	3 <sup>rd</sup> Sep'21			
Deferred spectrum payment				9 <sup>th</sup> Apr'22		82,117		
<b>Total</b>						<b>60,000</b>	<b>4,712</b>	<b>64,712</b>

**Operating performance**

- Gross additions turned negative at -3.46m after remaining positive in 3Q and 4QFY21. Churn increased to 3.5% v/s 3% in 4QFY21. The management attributed this to COVID-related lockdowns.
- Growth in Data traffic was strong (13.2% QoQ) at 5.5b GB. MOUs fell 2.4% QoQ to 641 minutes. Data usage/subscriber stood at 13.3GB, up 13.8% QoQ.
- VIL recognized an exceptional gain of INR1.8b towards gain on sale of property and integration costs.

**Management commentary****Capex and network investments**

- VIL added ~6,400 4G FDD sites primarily through the re-farming of 2G/3G spectrum to expand its 4G coverage and capacity.
- VIL's overall broadband site count declined to 447,114, v/s 452,650 in 4QFY21 as it continued to actively shutdown 3G sites.
- Till date, VIL has deployed ~63,000 TDD sites in addition to the deployment of ~13,800 Massive MIMO sites and ~12,800 small cells.
- It launched an integrated IoT platform under Vi Business, which offers end-to-end IoT solutions, a first in the market. This is a strategic step towards making Vi Business an IoT ecosystem integrator for Indian enterprises, positions VIL as an ecosystem play, and drives its transformation from a Telco to Techco.

**Cost saving initiatives**

- After achieving targeted merger opex synergies of INR84b, VIL aims to achieve INR40b in annualized cost savings by CY21. It has already achieved ~70% of the targeted annualized savings on a run-rate basis in 1QFY22.

**Fundraise**

- Vodafone paid USD200m (INR15.3b) as contingent liability towards AGR in Apr'20:
  - The Vodafone group infused USD200m (INR15.3b) in VIL under terms of the contingent liability mechanism towards its AGR liability.
  - The total exposure of the Vodafone group towards VIL by way of the contingent liability mechanism stood at INR84b. The net balance stands at INR69b.

**Indus stake sale**

- VIL relinquished its 11.13% stake in Indus for INR37.6b in Nov'19.

- Of this, INR24b will be adjusted towards rental prepayments (at 6% interest accrual), so the net amount received will be INR14b.
- Bharti Infratel has sought security of one-year forward payments in the form of: a) security deposit by VIL (i.e. INR24b), b) pledge of Vodafone's stake in Bharti Infratel, and c) corporate guarantees by Vodafone.
- Prior to this, it had raised: a) INR250b through a rights issue in Apr'19, and also b) INR135b in Feb'18 through ABG/Vodafone (promoter) equity infusion and a QIP just ahead of the merger.

#### **Fundraise details in the last couple of years and pending money to be received**

- In FY22, VIL repaid a principal of INR60b, including interest of INR64.7b.
- Against this, operating cash flow would be ~INR70b in FY22. It has deferred its upcoming spectrum payment.
- The board in Sep'20 approved a fund raising plan of up to INR250,000m, but is yet to complete the same.

#### **Total amount received in the last two years is INR29b.**

- Of this, INR15b has been infused by Vodafone towards contingent liability payment. (This is not an equity infusion, but a liability compensation, so there is no incremental stake).
- And INR14b through the Indus stake sale.

#### **Auditors raise concerns over VIL's ability to remain an ongoing concern**

- The group has classified long-term debt of INR79,944m (net of the waiver received) from non-current borrowings to current maturities for not meeting specified financial ratios and certain covenant clauses under various financial agreements as of 30<sup>th</sup> Jun'21.
- As a result of the earlier ratings downgrade, certain lenders had asked for higher interest rates and additional margin money/security against existing facilities.
- Subsequent to the quarter ending, there has been a further rating downgrade by Care to 'Care B-: Under Credit watch with Negative Implications'.
- The group has also written to DoT for deferment of the spectrum payment installment of INR82,117m payable as of 9<sup>th</sup> Apr'22.
- The company needs to provide additional bank guarantees of INR9.8b to avail an additional one-year moratorium on spectrum installments of INR64.4b.
- The Supreme Court dismissed the company's application for modification in the calculation of AGR dues on 23<sup>rd</sup> Jul'21. The company has filed a review petition on 10<sup>th</sup> Aug'21.

#### **Exhibit 5: Valuation based on FY23E pre Ind AS 116**

	Methodology	Driver	Multiple (x)	Fair value (INR b)	Value/share (INR)
Consolidated EBITDA	FY23E EV/EBITDA	198	9	1,795	62
Less: Net debt			.	1,637	57
<b>Total Value (FY21)</b>				<b>157</b>	<b>5</b>
Shares o/s (b)				28.7	
<b>CMP (INR)</b>					<b>6</b>
Upside (%)					-16

Source: MOFSL, Company



## Highlights from the management commentary

### Key takeaways

- VIL is focusing on investments in 16 priority circles, which contribute 94% of revenue.
- **Focus on high ARPU subscribers:** The management aims to scale up higher ARPU subscriber programs in partnership with OEMs and NBFCs for 4G devices.
- **Tax refund:** It received INR10b in the form of tax refunds in 1QFY22. The balance receivable now stands at INR58b.
- **Tariff change:** The company increased tariffs on entry-level corporate postpaid/prepaid plans to INR299/INR79 from INR199/INR49.
- It is generating positive cash from operations to meet its repayments and capex requirements. It is engaging with investors for new funding, and is conducting parallel discussions with bondholders for refinancing.

### Network and investment

- **Focused investment:** VIL is focusing on investments in 16 priority circles, which contribute 94% of revenue, to ensure a superior customer experience and to utilize its capex effectively.
- **Spectrum re-farming:** VIL is focusing on re-farming its 3G network to 4G. The company closed over 12,500 3G sites and added ~6,400 4G FTD sites in 1QFY22.
- **Focus on 4G sites:** Broadband site count stood at 4,47,144 v/s 4,52,650 in 4QFY21 due to the shutdown of the 3G sites, while 4G site additions continue.
- **4G reach:** Its 4G network now covers over one billion Indians as of 30th Jun'21.
- **5G readiness:**
  - While the company is in the middle of its 4G capex cycle, it's deploying 5G ready equipment across its radio and core segments. Most of the equipment used in 4G technology is 5G ready, with very minimal incremental capex required.
  - It is successfully deploying 5G ready technologies like Maximo, VSR, and Cloudification of core.
  - Its 5G trials are progressing well. It is setting up dedicated networks to test various use cases for verification by DoT.
  - The management expects spectrum costs for 5G to fall going forward.
- **Pact with CISCO:** It has partnered with CISCO to design and build a cost-effective architecture in emerging market opportunities of 4G, 5G, and Cloud IoT.

### Market initiatives:

- **New template launched:** It unveiled VI hero unlimited plan to improve its 4G subscriber base and address increasing data usage. The plan offers: a) weekend data rollover, b) free night time data (12am to 6am), and c) double data.
- **Focus on high ARPU subscribers:** The management aims to scale up higher ARPU subscriber programs in partnership with OEMs and NBFCs for 4G devices.
- **Tariff changes:** VIL undertook the following tariff changes in the past couple of months:
  - Launched a 30-60 day validity plan with no daily limit in lower data bundles.
  - Increased entry-level corporate postpaid tariff to INR299 from INR199.
  - Increased entry-level prepaid tariff to INR79 from INR49 in most circles.
  - Recently rolled out several postpaid family plans.

### Financial highlights:

- **Revenue** fell 4.7% QoQ due to: a) slowdown in economic activity, and b) customer additions being affected due to the lockdown.



- **One-off expenses:** EBITDA in 1QFY22 included one-offs of INR1b towards network financial expenses and employee cost.
- **Net debt and cash:** Net debt stood at INR1,906b, with the cash balance standing at a mere INR9.2b.
- **Cost savings:** VIL plans to achieve INR40b in annualized cost savings by CY21. It has already achieved ~70% of its target at the end of Jun'21.
- **Incremental debt:** The sequential rise in debt can be attributed to:
  - INR60b towards interest due but not accrued being recognized in 1QFY22.
  - INR11b towards interest accrued on spectrum related to the auction in Mar'21.
  - INR37b towards interest due but not accrued.
- **Tax refund:** It received INR10b in the form of tax refunds in 1QFY22. The balance receivable now stands at INR58b.

### Business services:

- Business services continue to remain a key focus area for growth.
- **Telco to Techco:** Its new range of offerings includes VI integrated IoT, VI Cloud firewall services, and VI business plus.
- **Offerings for SMEs:** Offerings like the auto receptionist and lead management continue to help SMEs automate and enhance their customer experience.
- **Cloud service protection:** It has enhanced its Cloud security portfolio with the launch of the VI Cloud firewall.

### Digital revenue streams

- VIL aims to engage in partnerships with content providers to provide new and engaging content through its platform VI movies.
- It recently launched music streaming service is available to prepaid and post subscribers.

### Outlook

- **Recovery:** A recovery in subscriber base is being seen since Jun'21 after being impacted in May'21. It is seeing a MoM recovery from Aug'21.
- **Fundraise:** The company is in active discussion with potential investors.
- **Floor pricing/tariff update:** The management remains optimistic on its floor pricing decision, and expects to see action on this front in the next few weeks.
- **Bond repayment (due between Dec'21 and Feb'22):** It is generating positive cash from operations to meet its repayments and capex requirements. It is engaging with investors for new funding, and is conducting parallel discussions with bondholders for refinancing.
- **Capex:** It has incurred a capex of INR9.4b in 1QFY22. Capex for FY22 is expected to remain at levels similar to the last two quarters. Higher investment in expanding coverage will depend on the closure of new funding.

### Other highlights

- **Change in directors:** Mr. Kumar Mangalam Birla stepped down as Non-Executive Director and Non-Executive Chairman. Mr. Himanshu Kapania was appointed in his place. Mr. Sushil Agarwal has been appointed as an Additional Director.
- **AGR case:** The company recently filed a review petition against the SC's judgment on rejection of AGR recalculation.

**Exhibit 6: Consolidated performance (INR m)**

<b>Consolidated P&amp;L (INR m)</b>	<b>1QFY21</b>	<b>4QFY21</b>	<b>1QFY22</b>	<b>YoY</b>	<b>QoQ</b>	<b>1QFY22E</b>	<b>Var. (%)</b>
<b>Revenue</b>	<b>1,06,593</b>	<b>96,076</b>	<b>91,523</b>	<b>-14.1</b>	<b>-4.7</b>	<b>93,878</b>	<b>-2.5</b>
Operating expenses	65,609	51,989	54,446	-17.0	4.7	54,012	0.8
<b>EBITDA</b>	<b>40,984</b>	<b>44,087</b>	<b>37,077</b>	<b>-9.5</b>	<b>-15.9</b>	<b>39,866</b>	<b>-7.0</b>
EBITDA margin (%)	38.4	45.9	40.5	206bp	-538bp	42.5	-195bp
<b>EBITDA (pre Ind AS 116)</b>	<b>18,400</b>	<b>21,687</b>	<b>13,777</b>	<b>-25.1</b>	<b>-36.5</b>	<b>17,466</b>	<b>-21.1</b>
EBITDA margin (%) (pre Ind AS 116)	17.3	22.6	15.1	-221bp	-752bp	18.6	-355bp
Depreciation and amortization	59,757	58,101	60,098	0.6	3.4	58,221	3.2
EBIT	-18,773	-14,014	-23,021	22.6	64.3	-18,354	25.4
EBIT margin (%)	-17.6	-14.6	-25.2	-754bp	-1057bp	-19.6	29bp
Net Finance Costs	37,486	46,664	51,949	38.6	11.3	47,532	9.3
Share of Associates	889	-2	5	-99.4	-350.0	-2	-345.1
<b>Profit before Tax</b>	<b>-55,370</b>	<b>-60,680</b>	<b>-74,965</b>	<b>35.4</b>	<b>NM</b>	<b>-65,888</b>	<b>13.8</b>
Exceptional item (gain)/loss	1,99,232	9,743	-1,779	NM	NM	0	NM
Tax	-2	-195	5	-350.0	NM	-212	-102.4
Tax rate (%)	0.0	0.3	0.0	-1bp	-33bp	0.3	-102bp
<b>Profit after Tax</b>	<b>-2,54,600</b>	<b>-70,228</b>	<b>-73,191</b>	<b>-71.3</b>	<b>NM</b>	<b>-65,677</b>	<b>11.4</b>
<b>Adj. Profit after Tax</b>	<b>-55,368</b>	<b>-60,485</b>	<b>-74,970</b>	<b>35.4</b>	<b>NM</b>	<b>-65,677</b>	<b>14.2</b>

Source: MOFSL, Company

**Exhibit 7: Key operating metrics**

	<b>1QFY21</b>	<b>4QFY21</b>	<b>1QFY22</b>	<b>YoY</b>	<b>QoQ</b>
<b>Subscriber Base (m)</b>	279.8	267.8	255.4	-8.7%	-4.6%
VLR Subscribers (m)	273.0	255.7	241.7	-11.5%	-5.5%
Net VLR Subscribers (m)	-20.7	-0.9	-14	-32.4%	1455.6%
Pre-paid Subscribers (%)	92.3%	92.2%	92.1%	-0.2%	-0.1%
Blended ARPU (INR)	114	107	104	-8.8%	-2.8%
<b>Voice metrics</b>					
MOU (minutes/subscriber/month)	678	657	641	-5.5%	-2.4%
ARPM (INR)	0.17	0.16	0.16	-2.7%	0.4%
Blended churn	2.00%	3.0%	3.5%	75.0%	16.7%
<b>Data metrics</b>					
Data subscribers (m)	135.7	139.9	136.1	0.3%	-2.7%
As a percentage of overall subscriber	48.5%	52.2%	53.3%	9.9%	2.0%
Broadband subscribers (m)	116.4	123.6	121.4	4.3%	-1.8%
4G subscribers	104.6	113.9	112.9	7.9%	-0.9%
Total Data traffic (m GB)	4,523	4,856	5,497	21.5%	13.2%
Total Data traffic (m MB)	45,22,721	48,56,000	54,97,000	21.5%	13.2%
Data usage/subscriber (MB)	10,956	11,666	13,278	21.2%	13.8%
<b>Tower details</b>					
Total Unique Towers (EoP)	1,81,229	1,80,484	1,80,674	-0.3%	0.1%
Total Unique Broadband Towers (EoP)	1,62,551	1,65,409	1,66,241	2.3%	0.5%
Total Broadband sites (3G+4G)	4,46,131	4,52,650	4,47,114	0.2%	-1.2%

Source: MOFSL, Company



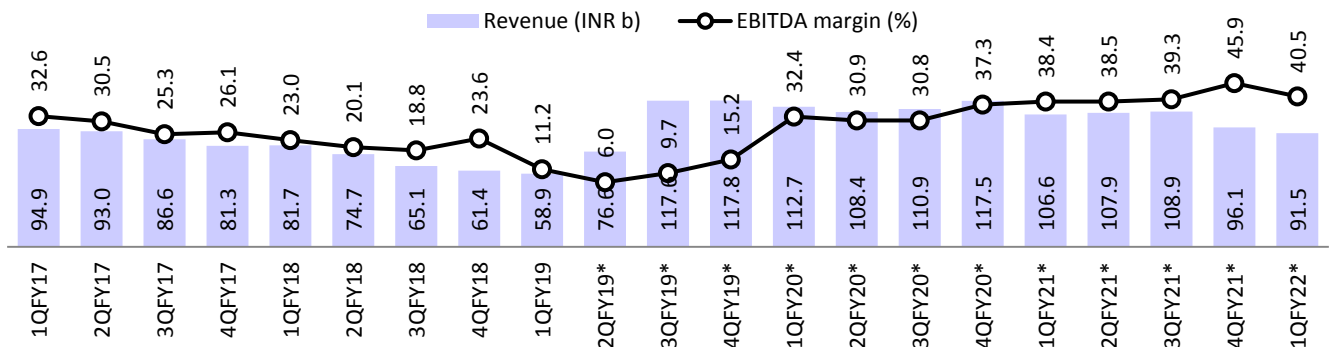
**Exhibit 8: Summary of estimate change**

	<b>FY22E</b>	<b>FY23E</b>
<b>Revenue (INR b)</b>		
Old	398	458
Actual/New	379	431
Change (%)	-4.9	-5.9
<b>EBITDA (INR b)</b>		
Old	178	221
Actual/New	160	198
Change (%)	-9.8	-10.4
<b>EBITDA margin (%)</b>		
Old	44.6	48.4
Actual/New	42.3	46.1
Change (bp)	-230bp	-230bp
<b>Net Profit (INR b)</b>		
Old	-247	-232
Actual/New	-288	-315
Change (%)	-16.9	-35.9
<b>Adj. EPS (INR)</b>		
Old	-8.6	-8.1
Actual/New	-10.1	-11.0
Change (%)	-17.6	-35.9
<b>ARPU (INR)</b>		
Old	111	127
Actual/New	110	125
Change (%)	-0.4	-1.9
<b>Subscribers (m)</b>		
Old	271	277
Actual/New	258	264
Change (%)	-4.8	-4.7
<b>MoU (minutes)</b>		
Old	671	701
Actual/New	638	677
Change (%)	-4.9	-3.4
<b>Data usage/subscriber (mb)</b>		
Old	13,164	16,001
Actual/New	12,941	16,001
Change (%)	-1.7	0.0
<b>Mobile RPM (INR)</b>		
Old	0.17	0.18
Actual/New	0.17	0.18
Change (%)	4.7	1.5
<b>Data ARMB (INR)</b>		
Old	0.00	0.00
Actual/New	0.00	0.00
Change (%)	7.3	44.3
<b>Data revenue (INR b)</b>		
Old	-92	-14
Actual/New	-92	-19
Change (%)	-0.6	30.0

Source: Company, MOFSL

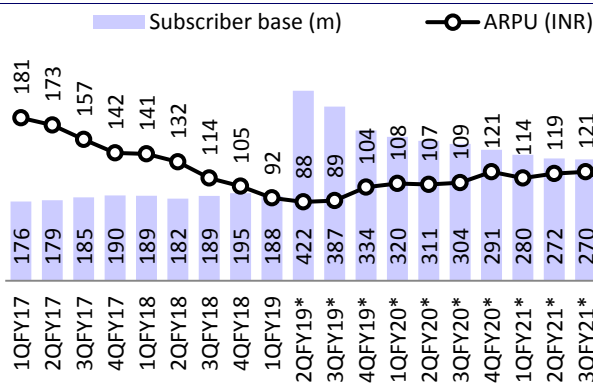
## Story in charts

**Exhibit 9: Consolidated revenue fell 5% QoQ; consolidated EBITDA margin at 40.5% (INR b, %)**

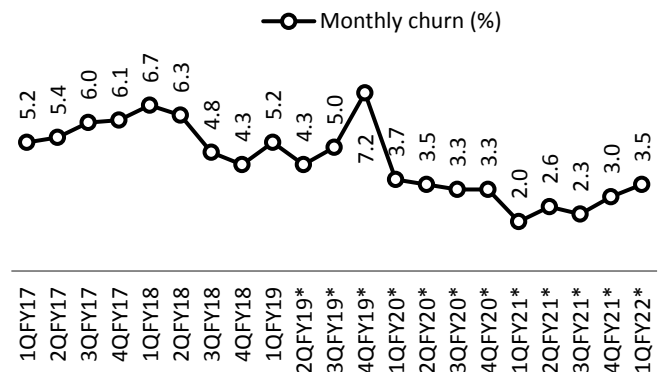


Source: MOFSL, Company

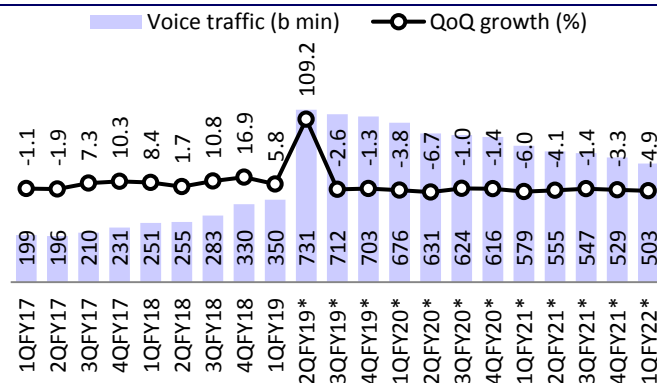
**Exhibit 10: ARPU declines by 3% QoQ to INR104**



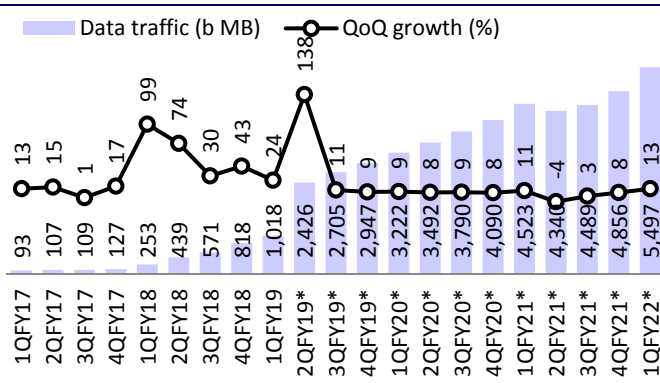
**Exhibit 11: Monthly churn at 3.5%**



**Exhibit 12: Voice traffic declines by 4.9% QoQ**



**Exhibit 13: Data traffic rose 13% QoQ**



## Financials and valuations

### Consolidated Income Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Total Income from Operations</b>	<b>3,59,494</b>	<b>3,55,758</b>	<b>2,82,789</b>	<b>3,70,925</b>	<b>4,49,575</b>	<b>4,19,522</b>	<b>3,78,580</b>	<b>4,30,623</b>
Change (%)	13.9	-1.0	-20.5	31.2	21.2	-6.7	-9.8	13.7
<b>Total Expenditure</b>	<b>2,39,818</b>	<b>2,52,995</b>	<b>2,22,314</b>	<b>3,30,495</b>	<b>3,00,450</b>	<b>2,50,065</b>	<b>2,18,340</b>	<b>2,32,290</b>
As a percentage of Sales	66.7	71.1	78.6	89.1	66.8	59.6	57.7	53.9
<b>EBITDA</b>	<b>1,19,676</b>	<b>1,02,763</b>	<b>60,475</b>	<b>40,430</b>	<b>1,49,125</b>	<b>1,69,457</b>	<b>1,60,240</b>	<b>1,98,333</b>
Margin (%)	33.3	28.9	21.4	10.9	33.2	40.4	42.3	46.1
Depreciation	62,561	78,272	84,091	1,45,356	2,43,564	2,36,385	2,42,394	2,56,445
<b>EBIT</b>	<b>57,115</b>	<b>24,491</b>	<b>-23,616</b>	<b>-1,04,926</b>	<b>-94,439</b>	<b>-66,928</b>	<b>-82,154</b>	<b>-58,112</b>
Int. and Finance Charges	18,831	37,342	44,600	87,317	1,43,527	1,78,239	2,07,796	2,56,614
<b>PBT bef. EO Exp.</b>	<b>38,284</b>	<b>-12,851</b>	<b>-68,216</b>	<b>-1,92,243</b>	<b>-2,37,966</b>	<b>-2,45,167</b>	<b>-2,89,950</b>	<b>-3,14,725</b>
Share of profits of associates	4,217	4,218	3,224	1,968	3,553	2,314	21	22
EO Items	0	0	0	-8,521	3,83,557	1,99,681	-1,779	0
<b>PBT after EO Exp.</b>	<b>42,501</b>	<b>-8,633</b>	<b>-64,992</b>	<b>-1,81,754</b>	<b>-6,17,970</b>	<b>-4,42,534</b>	<b>-2,88,150</b>	<b>-3,14,703</b>
Total Tax	15,220	-4,636	-23,310	-35,715	1,20,811	-203	20	0
Tax Rate (%)	35.8	53.7	35.9	19.7	-19.5	0.0	0.0	0.0
Minority Interest	0	0	0	0	0	0	0	0
<b>Reported PAT</b>	<b>27,281</b>	<b>-3,997</b>	<b>-41,682</b>	<b>-1,46,039</b>	<b>-7,38,781</b>	<b>-4,42,331</b>	<b>-2,88,170</b>	<b>-3,14,703</b>
<b>Adjusted PAT</b>	<b>24,574</b>	<b>-3,997</b>	<b>-41,682</b>	<b>-1,61,482</b>	<b>-2,17,269</b>	<b>-2,42,650</b>	<b>-2,89,949</b>	<b>-3,14,703</b>
Change (%)	-14.6	-114.7	942.8	250.4	34.5	11.7	19.5	8.5
Margin (%)	7.6	-1.1	-14.7	-43.5	-48.3	-57.8	-76.6	-73.1

### Consolidated Balance Sheet

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	36,005	36,053	43,593	87,356	2,87,354	2,87,354	2,87,354	2,87,354
Total Reserves	1,99,501	2,11,269	2,29,031	5,08,992	-2,27,555	-6,69,634	-9,57,804	-12,72,507
<b>Net Worth</b>	<b>2,35,506</b>	<b>2,47,322</b>	<b>2,72,624</b>	<b>5,96,348</b>	<b>59,799</b>	<b>-3,82,280</b>	<b>-6,70,450</b>	<b>-9,85,153</b>
Total Loans	4,05,413	5,50,545	5,79,851	10,85,236	11,05,883	16,59,627	17,90,088	20,11,594
Deferred Tax Liabilities	19,539	13,218	-11,393	-1,02,914	18	-1	-1	-1
<b>Capital Employed</b>	<b>6,60,458</b>	<b>8,11,085</b>	<b>8,41,082</b>	<b>15,78,670</b>	<b>11,65,700</b>	<b>12,77,346</b>	<b>11,19,637</b>	<b>10,26,441</b>
Gross Block	7,13,532	9,06,838	10,20,216	21,46,679	24,70,643	25,23,567	26,30,886	27,80,886
Less: Accum. Deprn.	61,692	1,39,267	2,23,358	3,68,714	6,12,278	8,48,663	10,91,058	13,47,503
<b>Net Fixed Assets</b>	<b>6,51,840</b>	<b>7,67,571</b>	<b>7,96,858</b>	<b>17,77,965</b>	<b>18,58,365</b>	<b>16,74,904</b>	<b>15,39,828</b>	<b>14,33,384</b>
Goodwill on Consolidation	61	61	61	36	0	0	0	0
Capital WIP	60,397	75,351	35,853	51,030	11,381	6,059	6,059	6,059
<b>Total Investments</b>	<b>34,709</b>	<b>63,783</b>	<b>72,905</b>	<b>82,386</b>	<b>19,792</b>	<b>41</b>	<b>41</b>	<b>41</b>
<b>Curr. Assets, Loans, and Adv.</b>	<b>54,247</b>	<b>59,912</b>	<b>66,069</b>	<b>2,82,193</b>	<b>3,79,638</b>	<b>3,53,779</b>	<b>3,32,432</b>	<b>3,45,979</b>
Inventory	1,065	588	367	42	25	6	14	16
Account Receivables	11,424	13,139	8,874	33,000	30,943	25,070	11,311	12,867
Cash and Bank Balance	7,691	827	291	9,908	26,630	22,165	13,019	2,282
Loans and Advances	34,067	45,358	56,537	2,39,243	3,22,040	3,06,538	3,08,088	3,30,814
<b>Curr. Liability and Prov.</b>	<b>1,40,798</b>	<b>1,55,592</b>	<b>1,30,664</b>	<b>6,14,940</b>	<b>11,03,476</b>	<b>7,57,437</b>	<b>7,58,723</b>	<b>7,59,020</b>
Account Payables	1,36,418	1,51,551	1,27,333	6,11,094	10,99,562	7,56,563	7,56,563	7,56,563
Provisions	4,380	4,041	3,331	3,846	3,914	874	2,160	2,457
<b>Net Current Assets</b>	<b>-86,550</b>	<b>-95,681</b>	<b>-64,595</b>	<b>-3,32,747</b>	<b>-7,23,838</b>	<b>-4,03,658</b>	<b>-4,26,292</b>	<b>-4,13,043</b>
<b>Appl. of Funds</b>	<b>6,60,458</b>	<b>8,11,085</b>	<b>8,41,082</b>	<b>15,78,670</b>	<b>11,65,700</b>	<b>12,77,346</b>	<b>11,19,637</b>	<b>10,26,441</b>

E: MOFSL estimates

## Financials and valuations

### Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>6.8</b>	<b>-1.1</b>	<b>-9.6</b>	<b>-18.5</b>	<b>-7.6</b>	<b>-8.4</b>	<b>-10.1</b>	<b>-11.0</b>
Cash EPS	24.2	20.6	9.7	-1.8	0.9	-0.2	-1.7	-2.0
BV/Share	65.4	68.6	62.5	68.3	2.1	-13.3	-23.3	-34.3
DPS	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	9.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Valuation (x)</b>								
P/E	0.9	-5.4	-0.6	-0.3	-0.8	-0.7	-0.6	-0.5
Cash P/E	0.2	0.3	0.6	-3.2	6.5	-27.4	-3.6	-2.9
P/BV	0.1	0.1	0.1	0.1	2.9	-0.4	-0.3	-0.2
EV/Sales	1.2	1.6	2.1	3.0	2.8	4.3	5.1	5.1
EV/EBITDA	3.2	4.9	8.8	25.8	8.3	10.7	12.2	11.0
Dividend Yield (%)	9.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Return Ratios (%)</b>								
RoE	10.6	-1.7	-16.0	-37.2	-66.2	150.5	55.1	38.0
RoCE	6.4	1.6	-1.8	-6.7	-7.9	-5.5	-6.9	-5.4
RoIC	8.2	1.8	-2.2	-7.8	-8.9	-5.7	-7.0	-5.5
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	0.5	0.4	0.3	0.2	0.2	0.2	0.1	0.2
Asset Turnover (x)	0.5	0.4	0.3	0.2	0.4	0.3	0.3	0.4
Inventory (Days)	1	1	0	0	0	0	0	0
Debtor (Days)	12	13	11	32	25	22	11	11
<b>Leverage Ratio (x)</b>								
Current Ratio	0.4	0.4	0.5	0.5	0.3	0.5	0.4	0.5
Interest Coverage Ratio	3.0	0.7	-0.5	-1.2	-0.7	-0.4	-0.4	-0.2
Net Debt/Equity	1.5	2.0	1.9	1.7	17.7	-4.3	-2.7	-2.0

### Consolidated Cash Flow Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
OP/(Loss) before Tax	42,501	-8,632	-41,682	-1,81,754	-6,17,970	-4,42,534	-2,88,170	-3,14,703
Depreciation	62,561	78,272	84,091	1,45,356	2,43,564	2,36,385	2,42,394	2,56,445
Interest and Finance Charges	20,685	39,736	44,600	88,114	1,43,662	1,78,345	2,07,796	2,56,614
Direct Taxes Paid	-8,611	-6,808	0	2,795	24,064	7,903	0	0
(Inc.)/Dec. in WC	-3,980	6,960	-23,102	28,030	-92,455	-14,445	13,488	-23,986
<b>CF from Operations</b>	<b>1,13,155</b>	<b>1,09,527</b>	<b>63,907</b>	<b>82,541</b>	<b>-2,99,135</b>	<b>-34,346</b>	<b>1,75,508</b>	<b>1,74,370</b>
Others	-3,669	-4,154	-10,583	-29,063	3,72,410	1,90,743	0	0
<b>CF from Operations incl. EO</b>	<b>1,09,486</b>	<b>1,05,373</b>	<b>53,324</b>	<b>53,478</b>	<b>73,275</b>	<b>1,56,397</b>	<b>1,75,508</b>	<b>1,74,370</b>
(Inc.)/Dec. in FA	-1,29,118	-1,26,319	-73,880	-75,860	-78,011	-45,315	-1,07,319	-1,50,000
<b>Free Cash Flow</b>	<b>-19,632</b>	<b>-20,946</b>	<b>-20,556</b>	<b>-22,382</b>	<b>-4,736</b>	<b>1,11,082</b>	<b>68,190</b>	<b>24,370</b>
(Pur.)/Sale of Investments	1,03,909	-33,472	-9,122	-3,731	65,423	42,424	0	0
Others	1,318	4,234	-9,715	5,803	-15,310	13,642	0	0
<b>CF from Investments</b>	<b>-23,890</b>	<b>-1,55,557</b>	<b>-92,717</b>	<b>-73,788</b>	<b>-27,898</b>	<b>10,751</b>	<b>-1,07,319</b>	<b>-1,50,000</b>
Issue of Shares	175	-4,453	67,497	0	2,49,164	0	0	0
Inc./(Dec.) in Debt	-86,485	84,297	29,306	21,299	-80,826	-43,503	1,30,461	2,21,507
Interest Paid	-4,393	-32,800	-44,600	-50,711	-1,52,585	-28,256	-2,07,796	-2,56,614
Dividend Paid	-2,598	-2,599	0	0	0	0	0	0
Others	0	1	-12,954	56,989	-65,019	-95,555	0	0
<b>CF from Fin. Activity</b>	<b>-93,301</b>	<b>44,445</b>	<b>39,249</b>	<b>27,577</b>	<b>-49,266</b>	<b>-1,67,314</b>	<b>-77,335</b>	<b>-35,107</b>
<b>Inc./Dec. in Cash</b>	<b>-7,705</b>	<b>-5,738</b>	<b>-144</b>	<b>7,267</b>	<b>-3,889</b>	<b>-166</b>	<b>-9,146</b>	<b>-10,737</b>
Opening Balance	13,879	6,174	435	291	7,558	3,669	22,165	13,019
<b>Closing Balance</b>	<b>6,174</b>	<b>435</b>	<b>291</b>	<b>7,558</b>	<b>3,669</b>	<b>22,165</b>	<b>13,019</b>	<b>2,282</b>
Other Balances	1,517	392	0	2,350	22,961	0	0	0
<b>Total Balance</b>	<b>7,691</b>	<b>827</b>	<b>291</b>	<b>9,908</b>	<b>26,630</b>	<b>22,165</b>	<b>13,019</b>	<b>2,282</b>

E: MOFSL estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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