

October 30, 2023

RESULT REPORT Q2 FY24 | Telecommunication

Vodafone Idea Ltd

Inline operating performance as it continues to lose subscribers

Result Synopsis

Vodafone Idea (IDEA) reported inline performance for the quarter. Both, sequential revenue growth and EBITDA margin were as per expectation. It reported sequential revenue growth of 0.6% QoQ, led by 2% QoQ increase in ARPU to Rs 142/month; while, subscriber base declined by 1.6mn QoQ to 219.8mn. 4G addition was better than expected for the quarter at 1.8mn QoQ. There was sequential improvement in EBITDA margin (up 95 bps QoQ) led by decrease in marketing cost. Net debt increased to Rs 2.13 trillion vs Rs 2.12 trillion as of Q1FY24.

It continues to lose subscribers (mainly in 2G segment) and that adversely impacts revenue growth. The addition of 4G subscribers remains modest. It needs capital infusion for augmenting the capital expenditure to catch up with peers in terms of 4G coverage/capacity. It has still not announced any timeline with regard to 5G implementation. We expect that 2G to 4G migration would continue to drive ARPU growth. We expect EBITDA Margin to improve in near term led by continued focus on operational efficiency. We estimate revenue CAGR of 7.6% over FY23-25E with average EBITDA margin of 41.1%. We maintain our SELL rating on the stock with target price of Rs 8/share based on EV/EBITDA of 9.0x on FY25E. The stock trades at EV/EBITDA of 15.3x/12.9x on FY24E/FY25E.

Result Highlights

- Reported revenue of Rs 107.2bn (up 0.6% QoQ, up 1.0% YoY). ARPU during the quarter increased to Rs 142 from Rs 139 in Q1FY24. While, the number of mobile subscribers decreased by 1.6mn QoQ to 219.8mn.
- EBITDA margin increased by 95 bps QoQ to 40.0%, led by decrease in Marketing Expenses (down 10.1% QoQ).
- Number of 4G subscribers increased by 1.8mn QoQ to 124.7mn; while average data usage by 4G subscriber increased to 15.8GB/ month.
- During the quarter, it added ~900 4G sites to expand its 4G coverage.
- Capex spend for the quarter stands at Rs. 5.2 billion vs Rs. 4.5 billion in Q1FY24.
- Net losses increased to Rs 87.4bn vs Rs 78.4bn in Q1FY24.
- Net debt stood at Rs 2.13 trillion vs Rs 2.12 trillion as of Q1FY23.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	107,163	107,809	107,980	-0.6%	-0.8%
EBITDA	42,828	43,052	41,940	-0.5%	2.1%
EBITDA Margin (%)	39.97%	39.93%	38.84%	3 bps	112 bps
Adjusted PAT	-87,379	-65,533	-75,700	33.3%	15.4%

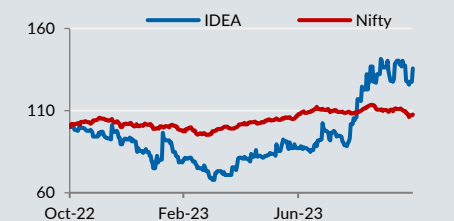
Source: Company, YES Sec

Reco	: SELL
CMP	: Rs 12
Target Price	: Rs 8
Potential Return	: - 33%

Stock data (as on October 30, 2023)

Nifty	19,149
52 Week h/l (Rs)	13 / 6
Market cap (Rs/USD mn)	530609 / 6376
Outstanding Shares (mn)	48,680
6m Avg t/o (Rs mn):	1,331
Div yield (%):	-
Bloomberg code:	IDEA IN
NSE code:	IDEA

Stock performance



	1M	3M	1Y
Absolute return	-0.4%	38.9%	35.7%

Shareholding pattern (As of Sep'23 end)

Promoter	50.4%
FII+DII	37.4%
Others	12.2%

Δ in stance

(1-Yr)	New	Old
Rating	SELL	SELL
Target Price	8.0	6.0

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	-9.8	-8.6
EPS (Old)	-8.3	-6.9
% change	NA	NA

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	421,772	434,229	487,662
YoY Growth	9.5%	3.0%	12.3%
EBITDA	168,167	174,500	205,306
YoY Growth	4.9%	3.8%	17.7%
PAT	(292,790)	(315,099)	(275,275)
YoY Growth	NA	NA	NA
ROE	NA	NA	NA
EPS	-9.1	-9.8	-8.6
P/E	-1.3	-1.2	-1.4
BV	-23	-33	-42
EV/EBITDA	16.1	15.3	12.9

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Exhibit 2: Quarterly snapshot Console: Margin performance inline with expectation

Particulars (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY%	QoQ%	H1FY24	H1FY23	YoY%
Sales	106,146	106,206	105,319	106,555	107,163	1.0	0.6	213,718	210,247	1.7
EBITDA	40,975	41,805	42,103	41,570	42,828	4.5	3.0	84,398	84,259	0.2
EBITDA Margin %	38.6	39.4	40.0	39.0	40.0	136 bps	95 bps	39.5	40.1	-59 bps
Depreciation	56,557	58,860	57,037	56,165	56,673	0.2	0.9	112,838	114,600	-1.5
EBIT	-15,582	-17,055	-14,934	-14,595	-13,845	NA	NA	-28,440	-30,341	NA
EBIT Margin %	-14.7	-16.1	-14.2	-13.7	-12.9	176 bps	78 bps	-13.3	-14.4	112 bps
Interest charges	61,291	63,227	50,016	63,982	65,690	7.2	2.7	129,672	120,300	7.8
PBT	-75,914	-79,900	-64,236	-78,370	-79,202	NA	NA	-157,572	-148,843	NA
Tax	41	3	-47	30	8,177	NA	NA	8,207	79	NA
PAT	-75,955	-79,903	-64,189	-78,400	-87,379	NA	NA	-165,779	-148,922	NA
Adjusted PAT	-75,955	-79,903	-63,965	-78,400	-87,379	NA	NA	-165,779	-148,922	NA
EPS (Rs)	-2.4	-2.5	-2.0	-2.4	-2.7	NA	NA	-5.2	-4.6	NA

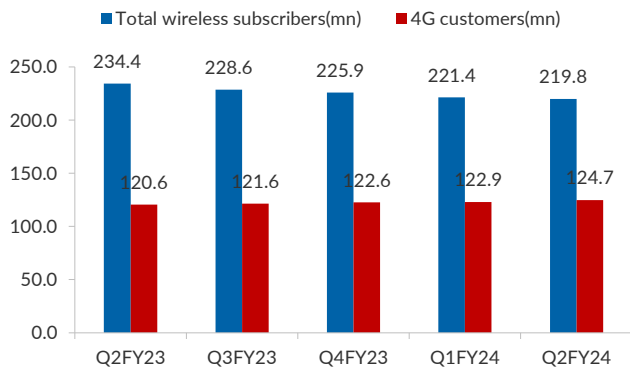
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Despite overall reducing subscribers base, revenue grew sequentially due to increase in adoption of 4G plans, higher price of entry level packages and on account of higher ARPU.
- Churn Rate remains high across industry players resulting in lower net adds compared to gross adds. Most of the churn was in the low ARPU level customers.
- Management is in discussion stage with multiple local vendors for 5G rollout.
- 9th consecutive quarter of 4G subscribers' addition and increase in ARPU.
- CAPEX for the quarter stood at Rs 5.2 Bn. Rollout for new sites reduced during the quarter.
- Some sites were closed due to issues with landlords and slower government sites approval; but this was not due to liquidity crunch.
- Management is expecting to close equity fund raise by the end of Q3FY24. Once equity is raised, the banks would be able to provide additional loans.
- The entry level plan of Rs 99 for 15 days have been extended across 15 circles during the quarter.
- Saw positive traction in the post-paid subscriber addition during the quarter.

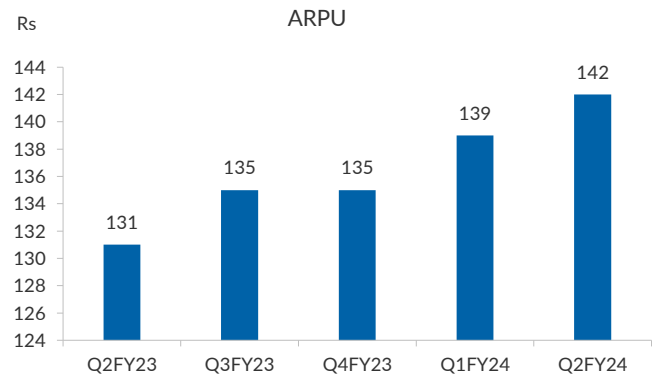
STORY IN CHARTS

Exhibit 3: Lost 1.6 mn subscribers in the quarter, mainly in 2G segment



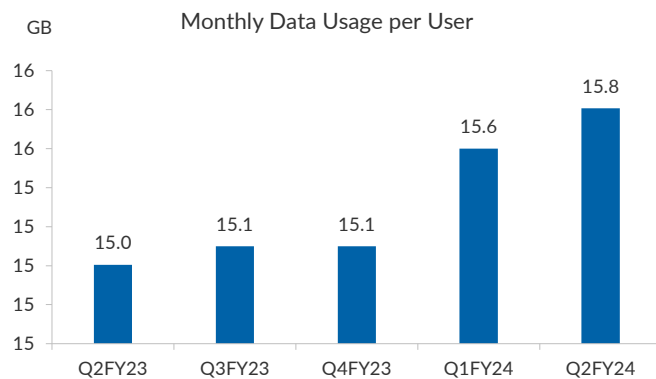
Source: Company, YES Sec

Exhibit 4: The ARPU improved to Rs 142 for the quarter



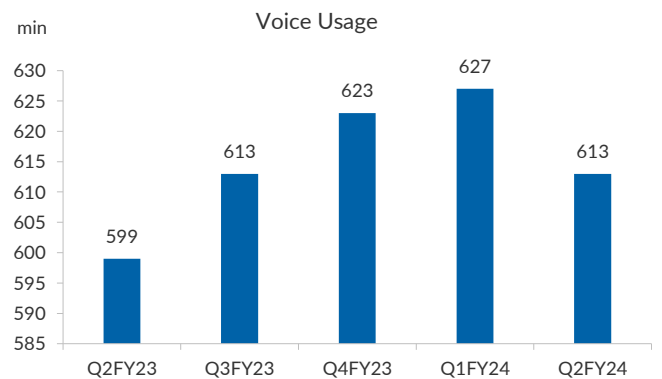
Source: Company, YES Sec

Exhibit 5: Data usage remained high at 15.8GB/month



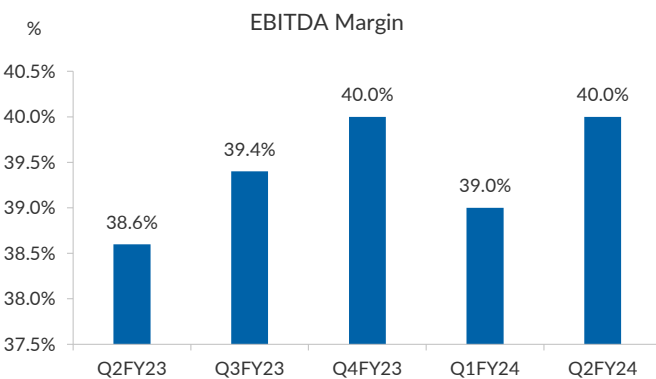
Source: Company, YES Sec

Exhibit 6: Voice usage level decreased sequentially during the quarter



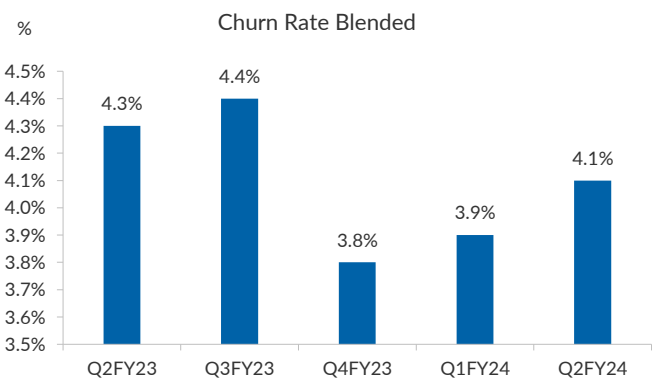
Source: Company, YES Sec

Exhibit 7: Increase in margin on lower marketing cost



Source: Company, YES Sec

Exhibit 8: Churn rate remains high



Source: Company, YES Sec

FINANCIALS

Exhibit 9: Balance Sheet

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Reserves & surplus	(227,555)	(669,634)	(940,836)	(1,230,388)	(1,545,487)	(1,820,762)
Shareholders' funds	59,799	(382,280)	(619,648)	(743,591)	(1,058,690)	(1,333,965)
Non-current liabilities	1,251,607	1,753,061	1,948,600	2,215,791	2,194,077	2,173,928
Long-term borrowings	1,243,537	1,748,242	1,942,294	2,210,136	2,188,140	2,167,694
Other non-current liabilities	8,070	4,819	6,306	5,655	5,938	6,235
Current liabilities	957,790	664,025	611,339	600,227	665,647	742,110
Other current liabilities	957,468	664,025	461,670	477,268	548,836	631,139
Total (Equity and Liabilities)	2,269,196	2,034,806	1,940,291	2,072,427	1,801,034	1,582,073
Non-current assets	2,102,335	1,893,811	1,771,936	1,933,398	1,659,871	1,438,193
Fixed assets (Net block)	1,869,746	1,680,963	1,571,829	1,741,316	1,714,289	1,693,433
Non-current Investments	97,701	77,364	88,545	88,559	53,160	31,922
Other non-current assets	134,886	135,484	111,562	103,523	(107,578)	(287,161)
Current assets	166,861	140,995	168,355	139,029	141,163	143,880
Cash & current investment	31,187	22,174	34,966	8,554	8,982	9,431
Other current assets	135,674	118,821	133,389	130,475	132,181	134,449
Total (Assets)	2,269,196	2,034,806	1,940,291	2,072,427	1,801,034	1,582,073

Source: Company, YES Sec

Exhibit 10: Income Statement

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	449,575	419,522	385,155	421,772	434,229	487,662
Operating expenses	(301,113)	(250,065)	(224,794)	(253,605)	(259,728)	(282,356)
EBITDA	148,462	169,457	160,361	168,167	174,500	205,306
Depreciation	(243,564)	(236,385)	(235,843)	(230,497)	(220,550)	(213,208)
Other income	10,393	1,742	1,294	3,113	1,258	1,443
EBIT	(84,709)	(65,186)	(74,188)	(59,217)	(44,791)	(6,458)
Exceptional & extraordinary	(383,557)	(199,681)	0	0	0	0
Profit before tax	(621,523)	(444,848)	(279,294)	(292,760)	(306,830)	(275,187)
Tax (current + deferred)	(120,811)	203	(113)	(35)	(8,227)	(40)
Profit / (Loss) for the period	(742,334)	(444,645)	(279,407)	(292,795)	(315,057)	(275,227)
P/L of Associates, Min Int, Pref Div	3,553	2,314	12	5	(42)	(48)
Reported Profit / (Loss)	(738,781)	(442,331)	(279,395)	(292,790)	(315,099)	(275,275)
Adjusted net profit	(355,224)	(242,650)	(279,395)	(292,790)	(315,099)	(275,275)

Source: Company, YES Sec

Exhibit 11: Cash Flow Statement

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	(621,523)	(444,848)	(279,294)	(292,760)	(306,830)	(275,187)
Depreciation	243,564	236,385	235,843	230,497	220,550	213,208
Change in working capital	427,374	(279,593)	(216,955)	18,363	69,874	80,047
Total tax paid	(17,879)	184	(172)	(110)	(8,227)	(40)
Cash flow from oper. (a)	174,400	(309,633)	(56,766)	186,420	236,147	285,314
Capital expenditure	(284,315)	(47,602)	(126,709)	(399,984)	(193,523)	(192,351)
Change in investments	(9,501)	24,885	(11,181)	(14)	35,399	21,238
Others	30,626	1,147	25,253	11,227	212,360	181,027
Cash flow from inv. (b)	(263,190)	(21,570)	(112,637)	(388,771)	54,235	9,914
Free cash flow (a+b)	(88,790)	(331,203)	(169,403)	(202,351)	290,382	295,227
Equity raised/(repaid)	199,998	0	33,834	165,609	0	0
Debt raised/(repaid)	52,562	504,383	343,721	241,132	(28,144)	(26,287)
Dividend (incl. tax)	0	0	0	0	0	0
Others	(147,058)	(177,645)	(195,360)	(230,802)	(261,810)	(268,492)
Cash flow from fin. (c)	105,502	326,738	182,195	175,939	(289,954)	(294,778)
Net chg in cash (a+b+c)	16,712	(4,465)	12,792	(26,412)	428	449

Source: Company, YES Sec

Exhibit 12: Ratio Analysis

Y/e March 31	FY20	FY21	FY22	FY23	FY24E	FY25E
Growth(%)						
Revenue Growth	21.2	(6.7)	(8.2)	9.5	3.0	12.3
EBITDA Growth	264.8	14.1	(5.4)	4.9	3.8	17.7
Profitability Ratios(%)						
EBITDA Margin	33.0	40.4	41.6	39.9	40.2	42.1
EBIT margin	(18.8)	(15.5)	(19.3)	(14.0)	(10.3)	(1.3)
Net Profit margin	(79.0)	(57.8)	(72.5)	(69.4)	(72.6)	(56.4)
RoA	(3.7)	(3.0)	(3.7)	(3.0)	(2.3)	(0.4)
RoE	(108.3)	NA	NA	NA	NA	NA
RoCE	(5.5)	(4.9)	(5.2)	(3.9)	(3.1)	(0.6)
Liquidity Ratios						
Net debt/Equity (x)	20.3	(4.5)	(3.3)	(3.1)	(2.2)	(1.7)
Current ratio (x)	0.2	0.2	0.3	0.2	0.2	0.2
Quick ratio (x)	0.2	0.2	0.3	0.2	0.2	0.2
Valuation Ratios						
PER(x)	NA	NA	NA	(1.3)	(1.2)	(1.4)
PCE(x)	NA	NA	NA	(6.0)	(4.0)	(6.1)
Price/Book(x)	NA	NA	NA	(0.5)	(0.4)	(0.3)
EV/EBITDA(x)	NA	NA	NA	16.1	15.3	12.9

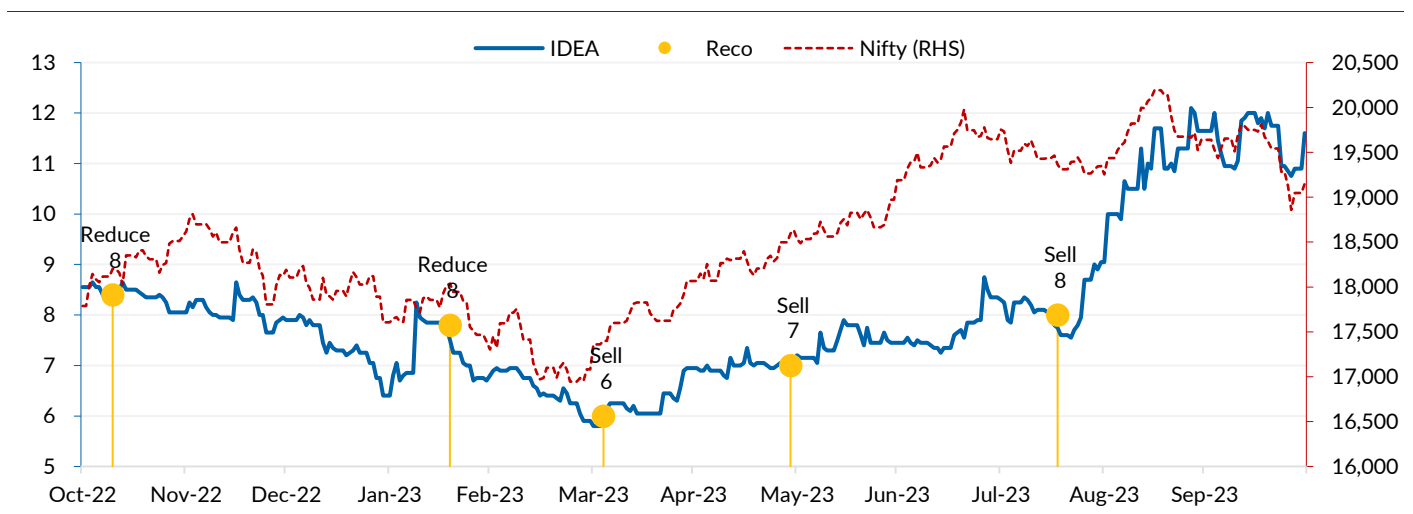
Source: Company, YES Sec

Exhibit 13: Dupont Analysis

Dupont Analysis	FY20	FY21	FY22	FY23	FY24E	FY25E
Net margin(%)	(79.0)	(57.8)	(72.5)	(69.4)	(72.6)	(56.4)
Asset turnover (x)	0.2	0.2	0.2	0.2	0.2	0.3
Leverage factor (x)	7.0	(13.3)	(4.0)	(2.9)	(2.1)	(1.4)
Return on Equity(%)	(108.3)	NA	NA	NA	NA	NA

Source: Company, YES Sec

Recommendation Tracker



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YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.