

January 30, 2024

RESULT REPORT Q3 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 decline in revenue of 0.4% QoQ, however, ARPU increased by 2% QoQ to Rs 145/month; while, subscriber base declined by 4.6mn QoQ to 215.2mn. 4G addition was better than expected for the quarter at 0.9mn QoQ. There was sequential improvement in EBITDA margin (up 80 bps QoQ) led by decrease in roaming cost. Net debt increased to Rs 2.15 trillion in Q3FY24 vs Rs 2.13 trillion as of Q2FY24.

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 3.6% over FY23-26E with average EBITDA margin of 41.8%. We maintain our SELL rating on the stock with target price of Rs 10/share based on EV/EBITDA of 13.1x on FY26E. The stock trades at EV/EBITDA of 14.7x/13.8x on FY25E/FY26E.

Result Highlights

- Reported revenue of Rs 106.7bn (down 0.4% QoQ, up 0.5% YoY). ARPU during the quarter increased to Rs 145 from Rs 142 in Q2FY24. While, the number of mobile subscribers decreased by 4.6mn QoQ to 215.2mn.
- EBITDA margin increased by 80 bps QoQ to 40.8%, led by decrease in Roaming Charges (down 7.7% QoQ).
- Number of 4G subscribers increased by 0.9mn QoQ to 125.6mn; while average data usage by 4G subscriber decreased to 15.4GB/ month from 15.8GB/ month sequentially.
- During the quarter, it added ~1,400 4G sites to expand its 4G coverage.
- Capex spend for the quarter stands at Rs. 3.3 billion vs Rs. 5.2 billion in Q2FY24.
- Net losses decreased to Rs 77.4bn vs Rs 87.4bn in Q2FY24.
- Net debt stood at Rs 2.15 trillion vs Rs 2.13 trillion as of Q2FY24.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	106,731	108,792	109,580	-1.9%	-2.6%
EBITDA	43,504	44,206	42,330	-1.6%	2.8%
EBITDA Margin (%)	40.76%	40.63%	38.63%	13 bps	213 bps
Adjusted PAT	-77,414	-75,413	-77,440	2.7%	0.0%

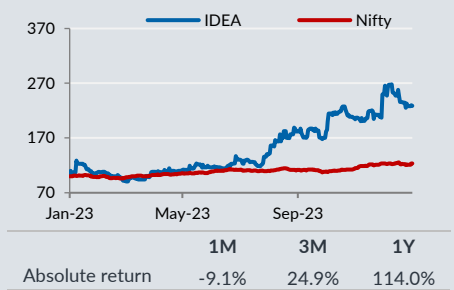
Source: Company, YES Sec

Reco	: SELL
CMP	: Rs 14
Target Price	: Rs 10
Potential Return	: -29%

Stock data (as on January 30, 2024)

Nifty	21,520
52 Week h/l (Rs)	18 / 6
Market cap (Rs/USD mn)	715591 / 8612
Outstanding Shares (mn)	48,680
6m Avg t/o (Rs mn):	2,901
Div yield (%):	-
Bloomberg code:	IDEA IN
NSE code:	IDEA

Stock performance



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	10.0	10.0

Δ in earnings estimates

	FY24E	FY25E	FY26E
EPS (New)	-9.9	-9.0	-8.7
EPS (Old)	-9.8	-8.6	-7.6
% change	NA	NA	NA

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Net Revenue	427,714	434,449	443,203
YoY Growth	1.4%	1.6%	2.0%
EBITDA	172,522	185,076	195,896
YoY Growth	2.6%	7.3%	5.8%
PAT	(316,908)	(289,624)	(279,701)
YoY Growth	0.0%	0.0%	0.0%
ROE	NA	NA	NA
EPS	-9.9	-9.0	-8.7
P/E	-1.4	-1.6	-1.6
BV	-33	-42	-51
EV/EBITDA	15.9	14.7	13.8

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

Particulars (Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY%	QoQ%	9MFY24	9MFY23	YoY%
Sales	106,206	105,319	106,555	107,163	106,731	0.5	-0.4	320,449	316,453	1.3
EBITDA	41,805	42,103	41,570	42,828	43,504	4.1	1.6	127,902	126,064	1.5
EBITDA Margin %	39.4	40.0	39.0	40.0	40.8	140 bps	80 bps	39.9	39.8	8 bps
Depreciation	58,860	57,037	56,165	56,673	55,984	-4.9	-1.2	168,822	173,460	-2.7
EBIT	-17,055	-14,934	-14,595	-13,845	-12,480	NA	NA	-40,920	-47,396	NA
EBIT Margin %	-16.1	-14.2	-13.7	-12.9	-11.7	437 bps	123 bps	-12.8	-15.0	221 bps
Interest charges	63,227	50,016	63,982	65,690	65,180	3.1	-0.8	194,852	183,527	6.2
PBT	-79,900	-64,236	-78,370	-79,202	-69,867	NA	NA	-227,439	-228,743	NA
Tax	3	-47	30	8,177	-8	NA	NA	8,199	82	NA
PAT	-79,903	-64,189	-78,400	-87,379	-69,859	NA	NA	-235,638	-228,825	NA
Adjusted PAT	-79,903	-63,965	-78,400	-87,379	-77,414	NA	NA	-243,193	-228,825	NA
EPS (Rs)	-2.5	-2.0	-2.4	-2.7	-2.2	NA	NA	-7	-7	NA

Source: Company, YES Sec

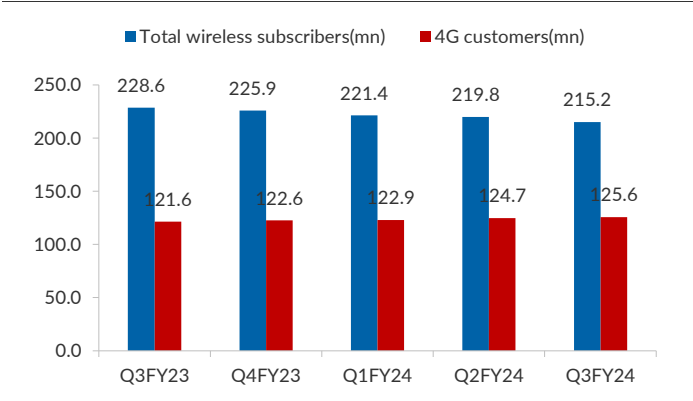
KEY CON-CALL HIGHLIGHTS

- Revenue declined sequentially due to decrease in subscribers base, and partial closure of few 3G sites across 5 circles.
- Capex spends for the quarter stood at Rs. 3.3 billion, and capex for the nine months at Rs. 13 billion.
- The total gross debt stood at Rs. 2,149.6 billion comprising of deferred spectrum payment obligations of Rs. 1,382.4 billion and AGR liability of Rs. 690.2 billion that are due to the Government.
- Debt from banks and financial institutions stood at Rs. 60.5 billion and Optionally Convertible Debentures amounting at Rs. 16.6 billion.
- Rs 7.6 billion exception item were related to merger difference and DOT refunded the amount. Q4FY24 may further witness a small amount of refund from DOT.
- Lower power and fuel cost and seasonality acted as a tailwind to the EBITDA Margins.
- Capex investments are focused towards expanding high speed broadband network coverage and capacity by rolling out new 4G sites on the existing locations.
- Due to cricket world cup & IPL matched in Q2FY24, data consumption peaked out and this was normalized during Q3FY24.

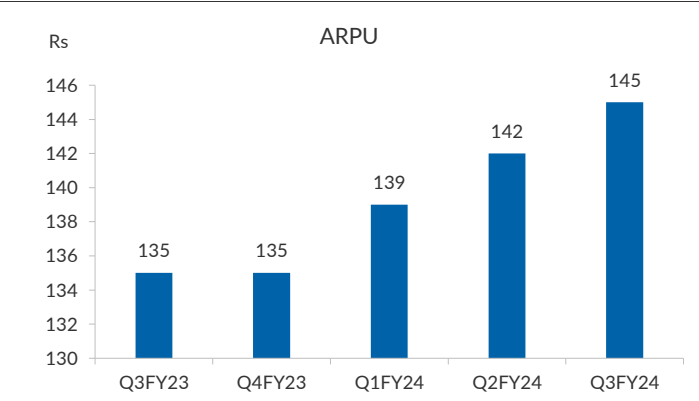
STORY IN CHARTS

Exhibit 3: Lost 4.6 mn subscribers in the quarter, mainly in 2G segment

Exhibit 4: ARPU improved to Rs 145 for the quarter



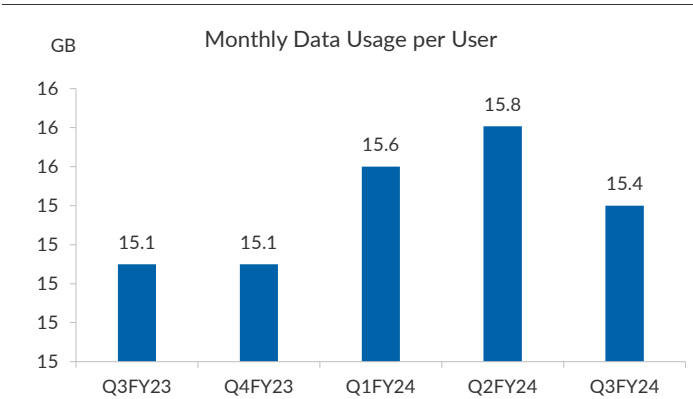
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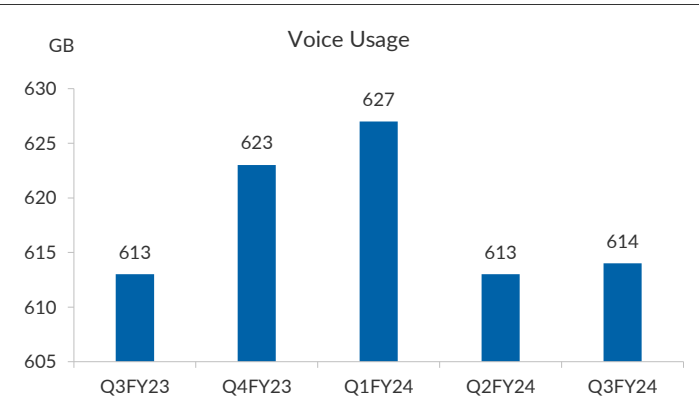
Source: Company, YES Sec

Exhibit 5: Data usage declined sequentially to 15.4GB/month

Exhibit 6: Voice usage level increased sequentially during the quarter



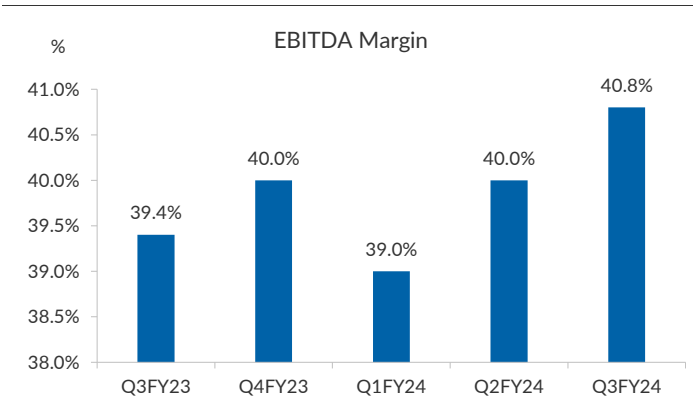
Source: Company, YES Sec



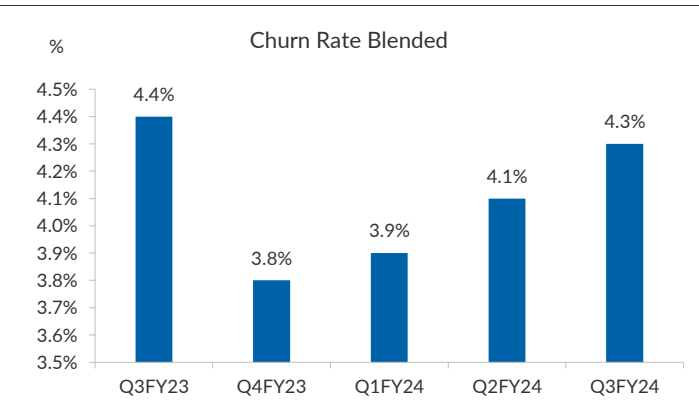
Source: Company, YES Sec

Exhibit 7: Increase in margin on lower roaming cost

Exhibit 8: Churn rate remains high



Source: Company, YES Sec



Source: Company, YES Sec

FINANCIALS

Exhibit 9: Balance Sheet

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share capital	287,354	321,188	486,797	486,797	486,797	486,797
Reserves & surplus	(669,634)	(940,836)	(1,230,388)	(1,547,296)	(1,836,920)	(2,116,620)
Non-current liabilities	1,753,061	1,948,600	2,215,791	2,194,077	2,173,928	2,155,369
Long-term borrowings	1,748,242	1,942,294	2,210,136	2,188,140	2,167,694	2,148,822
Other non-current liabilities	4,819	6,306	5,655	5,938	6,235	6,546
Current liabilities	664,025	611,339	600,227	665,647	742,110	831,210
Other current liabilities	664,025	461,670	477,268	548,836	631,139	725,788
Total (Equity and Liabilities)	2,034,806	1,940,291	2,072,427	1,799,225	1,565,915	1,356,755
Non-current assets	1,893,811	1,771,936	1,933,398	1,658,063	1,422,035	1,210,064
Fixed assets (Net block)	1,680,963	1,571,829	1,741,316	1,713,624	1,694,205	1,585,329
Non-current Investments	77,364	88,545	88,559	53,160	31,922	19,180
Other non-current assets	135,484	111,562	103,523	(108,722)	(304,092)	(394,445)
Current assets	140,995	168,355	139,029	141,163	143,880	146,692
Cash & current investment	22,174	34,966	8,554	8,982	9,431	9,902
Other current assets	118,821	133,389	130,475	132,181	134,449	136,789
Total (Assets)	2,034,806	1,940,291	2,072,427	1,799,225	1,565,915	1,356,755

Source: Company, YES Sec

Exhibit 10: Income Statement

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	419,522	385,155	421,772	427,714	434,449	443,203
Operating expenses	(250,065)	(224,794)	(253,605)	(255,192)	(249,373)	(247,307)
EBITDA	169,457	160,361	168,167	172,522	185,076	195,896
Depreciation	(236,385)	(235,843)	(230,497)	(221,881)	(210,331)	(205,924)
EBIT	(66,928)	(75,482)	(62,330)	(49,360)	(25,256)	(10,028)
Other income	1,742	1,294	3,113	1,058	1,031	1,073
Exceptional & extraordinary	(199,681)	0	0	0	0	0
Profit before tax	(444,848)	(279,294)	(292,760)	(308,659)	(289,540)	(279,617)
Tax (current + deferred)	203	(113)	(35)	(8,209)	(40)	(40)
Profit / (Loss) for the period	(444,645)	(279,407)	(292,795)	(316,868)	(289,580)	(279,657)
P/L of Associates, Min Int, Pref Div	2,314	12	5	(40)	(44)	(44)
Reported Profit / (Loss)	(442,331)	(279,395)	(292,790)	(316,908)	(289,624)	(279,701)
Adjusted net profit	(242,650)	(279,395)	(292,790)	(316,908)	(289,624)	(279,701)

Source: Company, YES Sec

Exhibit 11: Cash Flow Statement

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	(444,848)	(279,294)	(292,760)	(308,659)	(289,540)	(279,617)
Depreciation	236,385	235,843	230,497	221,881	210,331	205,924
Change in working capital	(279,593)	(216,955)	18,363	69,874	80,047	92,322
Total tax paid	184	(172)	(110)	(8,209)	(40)	(40)
Cash flow from oper. (a)	(309,633)	(56,766)	186,420	234,186	265,083	288,178
Capital expenditure	(47,602)	(126,709)	(399,984)	(194,189)	(190,913)	(97,048)
Change in investments	24,885	(11,181)	(14)	35,399	21,238	12,742
Others	1,147	25,253	11,227	213,303	196,402	91,426
Cash flow from inv. (b)	(21,570)	(112,637)	(388,771)	54,513	26,727	7,120
Free cash flow (a+b)	(331,203)	(169,403)	(202,351)	288,699	291,810	295,298
Equity raised/(repaid)	0	33,834	165,609	0	0	0
Debt raised/(repaid)	504,383	343,721	241,132	(28,144)	(26,287)	(24,420)
Dividend (incl. tax)	0	0	0	0	0	0
Others	(177,645)	(195,360)	(230,802)	(260,127)	(265,075)	(270,407)
Cash flow from fin. (c)	326,738	182,195	175,939	(288,271)	(291,361)	(294,827)
Net chg in cash (a+b+c)	(4,465)	12,792	(26,412)	428	449	472

Source: Company, YES Sec

Exhibit 12: Ratio Analysis

Y/e March 31	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth(%)						
Revenue Growth	(6.7)	(8.2)	9.5	1.4	1.6	2.0
EBITDA Growth	14.1	(5.4)	4.9	2.6	7.3	5.8
Profitability Ratios(%)						
EBITDA Margin	40.4	41.6	39.9	40.3	42.6	44.2
EBIT margin	(16.0)	(19.6)	(14.8)	(11.5)	(5.8)	(2.3)
Net Profit margin	(57.8)	(72.5)	(69.4)	(74.1)	(66.7)	(63.1)
RoA	(3.1)	(3.8)	(3.1)	(2.5)	(1.5)	(0.7)
RoE	NA	NA	NA	NA	NA	NA
RoCE	(5.0)	(5.3)	(4.1)	(3.5)	(2.3)	(1.3)
Liquidity Ratios						
Net debt/Equity (x)	(4.5)	(3.3)	(3.1)	(2.2)	(1.7)	(1.4)
Current ratio (x)	0.2	0.3	0.2	0.2	0.2	0.2
Quick ratio (x)	0.2	0.3	0.2	0.2	0.2	0.2
Valuation Ratios						
PER(x)	NA	NA	(1.5)	(1.4)	(1.6)	(1.6)
PCE(x)	NA	NA	(7.2)	(4.7)	(5.7)	(6.1)
Price/Book(x)	NA	NA	(0.6)	(0.4)	(0.3)	(0.3)
EV/EBITDA(x)	NA	NA	16.5	15.9	14.7	13.8

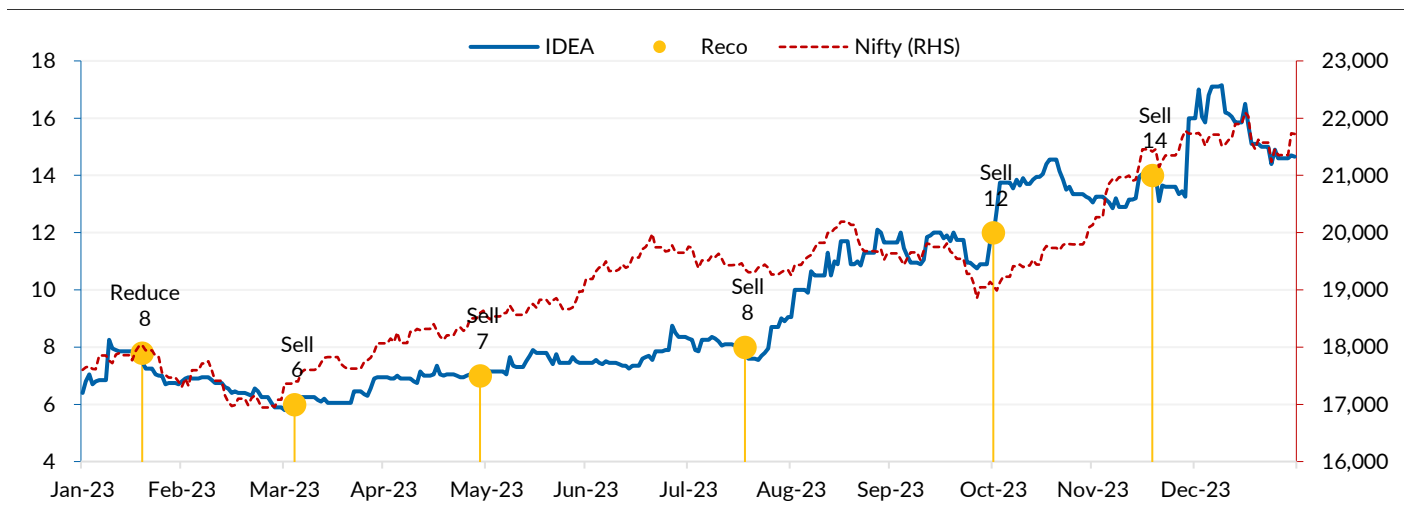
Source: Company, YES Sec

Exhibit 13: Dupont Analysis

Dupont Analysis	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net margin(%)	(57.8)	(72.5)	(69.4)	(74.1)	(66.7)	(63.1)
Asset turnover (x)	0.2	0.2	0.2	0.2	0.3	0.3
Leverage factor (x)	(13.3)	(4.0)	(2.9)	(2.1)	(1.4)	(1.0)
Return on Equity(%)	NA	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.