28 March 2019

National Stock Exchange of India Limited
"Exchange Plaza",
Bandra - Kurla Complex,
Bandra (E),
Mumbai – 400 051

Sub: Clarification on Announcement

Ref: Clarification with respect to announcement dated 15-Mar-2019, regarding "Vodafone Idea Limited has informed the Exchange regarding Credit Rating revision."

Dear Sirs,

This has reference to the clarification sought on the announcement captioned above.

In this regard we wish to clarify that the reasons of the agency are set out in their rating rationale which is published by them on the website and disseminated in public domain.

The rating rationale is also available on the following link -
https://www.indiaratings.co.in/PressRelease?pressReleaseID=36256&title=India-Ratings-Downgrades-Vodafone-Idea-and-its-NCDs--to-%E2%80%98IND-A%2B%E2%80%99%3B-Places-on-RWN

We have also attached screenshots of the rating rationale as mentioned in the above link for your information and reference.

Trust the above is in order.

Thanking you,

Yours truly,

For **Vodafone Idea Limited**

VODAFONE IDEA LIMITED

Pankaj Kapdeo
Company Secretary

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India Ratings Downgrades Vodafone Idea and its NCDs to 'IND A+'; Places on RWN

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Share

Applicable Criteria

Corporate Rating Methodology

CONTACT POPULAR SIMILAR

Primary Analyst

Prashant Tarwadi

Director

15

MAR 2019

By Prashant Tarwadi

India Ratings and Research (Ind-Ra) has downgraded Vodafone Idea Limited's (VIL) Long-Term Issuer Rating to 'IND A+' from 'IND AA-' and placed it on Rating Watch Negative (RWN). The instrument-wise rating actions are as follows:

Instrument	ISIN	Date of	Coupon	Maturity	Size of	Rating/Rating	Rating

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VODAFONE IDEA LIMITED

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Rating Watch	Rating Action
Non-convertible debentures (NCDs)	INE713G08038	12 June 2015	8.15	10 July 2019	INR25	IND A+/RWN	Downgraded and Placed on RWN
NCDs	INE713G08046	12 June 2015	8.25	10 July 2020	INR35	IND A+/RWN	Downgraded and Placed on RWN

Analytical Approach: For arriving at the current ratings, Ind-Ra has taken a consolidated view of VIL, including all of its subsidiaries, because of the close operational and strategic linkages among them.

The downgrade reflects weakening of VIL's business and financial risk profile amid continuing pricing pressures in the Indian telecom industry. VIL's subscriber market share (visitor location register) declined around 170bp while the revenue market share declined 130bp during 3QFY19. This is against Ind-Ra's expectation of a stabilising market share. Competition persists in the sector with VIL and Bharti Airtel Ltd's tariffs (in INR/gigabyte terms) remain at a 25%-30% premium to others', thereby putting VIL's market share at risk.

VIL's subscriber base declined 8% to 387 million in 3QFY19, and is unlikely to show a meaningful recovery, given the increasing competitive pressures. Ind-Ra had expected VIL would be able to retain most of the subscribers with sub-INR25 average revenue per subscriber (ARPU) by migrating them to its minimum recharge plans offerings (INR35 for 28 days). VIL's ARPU of INR89 in 3QFY19 is lower than Ind-Ra's FY20 expectations by 12%. While Ind-Ra expects some recovery in ARPU in 4QFY19/FY20 on the back of implementation of the minimum recharge plans, it is likely to be offset by a lower subscriber base. Lower-than-expected revenue growth along with upfront integration costs may lower internal cash accruals in FY20, which may necessitate a large capital infusion in 1HFY21. Ind-Ra will monitor VIL's plans to raise a total INR457 billion (rights issue of INR250 billion, fibre asset monetisation of INR156 billion and proceeds from the sale of 11.15% stake in Indus Towers at INR51 billion) over FY20.

The RWN reflects the recent delay in a capital infusion of INR250 billion till end-May 2019, and the subsequent requirement of short-term funding

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VODAFONE IDEA LIMITED

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The RWN reflects the recent delay in a capital infusion of INR250 billion till end-May 2019, and the subsequent requirement of short-term funding to service the debt in March and April 2019. While accessing VIL in November 2018, Ind-Ra had expected a capital infusion of INR182.5 billion through promoters by March 2019 and the additional INR67.5 billion through institutional investors in 1HFY20. Ind-Ra had estimated this would be sufficient to cater to VIL's near-term debt servicing of INR108 billion (spectrum liability of INR93 billion; financial debt principal of INR9.7 billion; financial interest of INR4.7 billion) due in March and April 2019. However, with the capital infusion being delayed, VIL's current cash levels of INR89 billion (as of December 2018) may not be sufficient to service the debt.

Ind-Ra understands that VIL is seeking near-term bridge funding to conserve the cash balances until the proceeds of the rights issue are available. A timely conclusion of the infusion remains critical for servicing debt in July 2019 (INR29 billion) and October 2019 (INR31 billion). While the Ind-Ra believes that there is a high probability of VIL successfully tying-up additional funds given financially resourceful promoters, timely tie-up of funds as expected without adversely impacting its near-term liquidity is a key rating sensitive factor.

KEY RATING DRIVERS

Weakening Credit Metrics: Ind-Ra expects VIL's net debt and weak profitability over the next two to three years to keep net debt/EBITDA in double digits till March 2020. VIL's pro forma net leverage (net debt/EBITDA) was around 10x and interest coverage (EBITDA/gross interest expense) below 2.0x as of March 2018. A meaningful improvement in the leverage situation is unlikely in FY19-FY20, given the continued elevated debt level of above INR1 trillion and stress on industry-wide ARPU. VIL's ARPU in 3QFY19 has already declined by about 30% as against FY18 averages, albeit stable at 2QFY19 levels. Sharp growth in data consumption has not been able to offset the decline in ARPU, leading to pressure on profitability.

Ind-Ra expects VIL's EBITDA margins to be close to 30% by FY22, largely supported by annual net merger synergies of INR61 billion as against management estimates of INR84 billion. Even in such scenario, VIL's net leverage will exceed 5x and interest coverage will be below 1.5x till FY22. Hence, any improvement in the credit profile remains contingent on a recovery in ARPU and timely financial support by the promoters.

Strong Business Profile Post Merger: Post merger, VIL has become India's largest telecommunication service provider with a subscriber base of 387 million, revenue market share of 31.6% in 3QFY19 and subscriber market share of 38% in December 2018. The company has 92% population coverage with over 200,000 cell sites and 1,850MHz of total spectrum holding. The merger has also complemented the circle presence of both entities as the erstwhile Idea Cellular Limited has a strong presence in rural areas, while Vodafone India Limited has a strong presence in urban areas.

VODAFONE IDEA LIMITED

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Strong Parentage: Aditya Birla Group (ABG) held a 26.55% stake in VIL as of September 2018, predominantly through Grasim Industries Limited (about 12%, 'IND AAA'/Stable), Hindalco Industries Limited (about 3%), Birla TMT Holdings Private Limited (about 4%) and other ABG investment entities. Vodafone Plc (Fitch Ratings Ltd Issuer Default Rating: 'BBB+'/Stable) held a 44.78% stake in VIL as of September 2018. In the last 12 months, the promoters have infused around INR193 billion in VIL. VIL board has approved rights issue to existing shareholders totalling INR250 billion, of which Vodafone Group and ABG would contribute up to INR110 billion and INR72.5 billion, respectively. Also, the promoters have indicated that in case the rights issue is undersubscribed, each of the promoter shareholder reserves the right to subscribe to part or whole amount of the unsubscribed portion. However, Ind-Ra estimates that VIL may require capital infusions in FY21 and FY22 as well to service its debt obligations and fund the network capex. Continued support from the strong financially resourceful parent is positive, and remains a key rating driver.

Regulatory and Technology Risk: India's telecommunication services industry, which is capital intensive in nature, is exposed to changes in the technology. According to media reports, the Indian government is considering an additional spectrum auction and roll-out of 5G technology by 2020, which may lead to additional investments by extant telecommunication players even when they are yet to recover their investments in the 4G technology. Also, the telecom industry is highly regulated, which exposes players to adverse regulatory changes. For instance, a reduction in the interconnect usage charges to INR0.06/minute in October 2017 from INR0.14/minute impacted the profitability of players substantially.

RATING SENSITIVITIES

The RWN indicates that the ratings may be downgraded or affirmed. Ind-Ra is likely to resolve the RWN by May 2019 once clarity on capital infusion of INR250 billion and tie-up of short-term bridge funding is received.

COMPANY PROFILE

VIL is a telecommunications services provider, offering voice and data services across all 22 service areas in India. It has overall subscriber base of 387 million, with broadband subscriber base of 99.7 million. Vodafone Group Plc owned 45.2% stake and ABG owned 26% stake in VIL as on 30 September 2018.

FINANCIAL SUMMARY

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VODAFONE IDEA LIMITED

FINANCIAL SUMMARY

Particulars*	FY18	FY17
Revenue (INR billion)	625.86	781.21
EBITDA (INR billion)	119.30	201.63
EBITDA margin (%)	19.1	25.8
EBITDA interest coverage (x)	1.3	2.0
Net adjusted debt/EBITDA (x)	9.8	5.6

Source: VIL, Ind-Ra
*Ind-Ra has prepared pro-forma consolidated financials of VIL using annual financials of Vodafone India and Idea Cellular.

RATING HISTORY

Instrument Type	Current Rating/Rating Watch			Historical Rating/Outlook
	Rating Type	Rated Limits (billion)	Rating	11 February 2019
Issuer rating	Long-term	-	IND A+/RWN	IND AA-/Negative
NCDs	Long-term	INR60	IND A+/RWN	IND AA-/Negative

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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VODAFONE IDEA LIMITED

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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