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NSE: IDEA

Prevailing Stance: UW

Dissenting Stance: NEUTRAL

Abstract

This analysis evaluates Vodafone Idea (IDEA) through two lenses: a prevailing Underweight rating based on severe financial stress and competitive disadvantage, and a dissenting Neutral view citing potential stabilization from tariff hikes and government backing. It concludes that while fundamentals justify caution, specific regulatory or operational successes could mitigate downside risk.

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*Represents
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“Nothing is ever as bad or as good as it seems”

— Scott Galloway, *Algebra of Happiness*

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Investment Summary

Rating Overview

Prevailing Stance: Underweight (UW)

Dissenting Stance: Neutral

Key Drivers Behind the Rating

Prevailing View: Underweight

We are Underweight on NSE: IDEA based on a clear assessment of the company's fundamentals and competitive position. Vodafone Idea's financial performance remains weak with ongoing losses, substantial debt, and limited internal cash flow generation. Despite tariff hikes and modest revenue improvements, the company continues to underperform its larger rivals in key metrics such as average revenue per user and subscriber growth, and losses persist quarter after quarter.

The competitive landscape of the Indian telecom market is dominated by two entrenched players, Reliance Jio and Bharti Airtel, which together command the majority of market share and network investment capacity. Market data indicates that Vodafone Idea's subscriber base and revenue share lag significantly behind these peers, reflecting the structural difficulty of competing effectively in a consolidated environment.

India's telecom sector operates in a highly capital-intensive context, with ongoing requirements for 4G and 5G network rollout and technology investments. Idea's constrained financial position limits its ability to invest at scale, and it has struggled to keep pace with network quality and customer experience enhancements. This dynamic creates a strategic disadvantage versus competitors with stronger balance sheets and higher free cash flow. Continued pressure from pricing and competitive intensity suggests limited upside in the near to medium term.

Together, these factors support our Underweight view as the most appropriate stance given the fundamental challenges and lack of a credible path to material improvement.

Prevailing Analysts.

Aditya Mishra

Laith Shaikh

Dissenting View: Neutral

The Neutral stance reflects a careful recognition of Vodafone Idea's systemic significance within the Indian telecommunications ecosystem. Under this view, the company's viability has implications beyond its individual performance, influencing market structure, competitive dynamics, and consumer outcomes. A failure of Vodafone Idea could quickly reshape the domestic telecom market into a near duopoly, substantially reducing consumer choice and potentially exerting upward pressure on tariffs and other competitive factors, outcomes that would almost certainly draw significant regulatory and policy intervention.

The Government of India's substantial ownership interest, now approaching fifty percent, aligns public incentives with the objective of maintaining a three-player market structure. This ownership position casts the state as a critical stakeholder with both fiscal and strategic motivations to support ongoing operations and preserve competitive balance. Historical policy support, including moratorium arrangements on adjusted gross revenue liabilities and the conversion of statutory dues into equity, exemplifies the authorities' willingness to provide targeted relief when market stability is at stake. These actions illustrate the capacity of the regulatory framework to be leveraged in circumstances where continuity of service and competitive integrity is threatened.

Within this Neutral assessment, the combination of government support and the strategic importance of Vodafone Idea to national telecom competitiveness is regarded as moderating the likelihood of the most adverse outcomes relative to a pure fundamental assessment. The implicit policy backstop is viewed by some investors as reducing the probability of a disorderly exit scenario, thereby mitigating measured downside risk while acknowledging ongoing operational challenges.

Dissenting Analyst.

Soham Sahay

Company Overview

Vodafone Idea Limited, trading on the National Stock Exchange as IDEA, is a major Indian telecommunications company incorporated in 2018 through the merger of Vodafone India and Idea Cellular. The combined entity operates nationally under the brand name Vi, providing integrated telecommunications and digital services across India. The company's principal business activities encompass mobile telephony, wireless broadband, voice and data services, as well as value-added digital offerings. Vodafone Idea serves a substantial portion of the Indian mobile subscriber base with extensive network coverage, supported by significant spectrum holdings across multiple frequency bands. The company's operations reflect a strategic focus on expanding broadband capacity, improving customer experience, and participating in the deployment of next-generation network services.

Business Model and Revenue Streams

Vodafone Idea's business model centres on generating revenue through a diversified suite of telecommunications services. Core revenue streams include subscription fees from mobile customers for prepaid and postpaid voice and data services. Additional revenue is derived from broadband services, interconnect usage charges, messaging services, enterprise solutions, and value-added services such as caller tunes and utility services. The company also monetizes network infrastructure through partnerships that carry domestic and international traffic, and through the provision of long distance and internet service provider services. Vodafone Idea continues to pursue enhancements in average revenue per user through tariff revisions and tiered service plans. Management has undertaken network expansion and digital service initiatives to strengthen competitive positioning and revenue resilience in a dynamic market environment.

Subscriber Base and Market Position

Vodafone Idea is one of the largest telecommunications operators in India by subscriber count. As of the most recent statutory disclosures, the company's subscriber base encompasses a significant share of the domestic mobile market, with data indicating approximately 198 million subscribers, including over 126 million 4G users. The company's market share remains material in key service areas and contributes to its positioning as a leading provider despite competitive pressures from rivals. Vodafone Idea's mobile and broadband networks extend across tier-I through tier-III markets, with continued investments in network capacity, spectrum utilization, and service quality. The subscriber base and revenue market share reflect both competitive challenges and ongoing operational initiatives aimed at customer retention and growth.

Ownership Structure

The ownership structure of Vodafone Idea has evolved substantially following recent equity conversions and strategic investments. The Government of India is the single largest shareholder, holding close to 49 percent of the company's equity following conversion of certain statutory dues into equity. Vodafone Group retains a significant minority stake, approximately 16 percent, while the Aditya Birla Group holds around 9 to 10 percent of shares. The residual equity is held by public shareholders, reflecting a diversified free float. This ownership composition aligns public sector incentives with broader national telecom policy objectives, while also maintaining substantial strategic stakes for the original promoters. The current structure underscores a hybrid public-private stakeholder base with a focus on stabilizing operations, supporting capital investment, and sustaining competitive market dynamics.

Industry and Competitive Landscape

The Indian telecommunications sector represents one of the largest and most dynamic digital markets globally, underpinned by rapid adoption of mobile data services, extensive 4G and 5G network deployments, and a breadth of digital applications spanning enterprise and consumer use cases. As of 2025, the market is characterised by high concentration, with three major private sector operators collectively accounting for a dominant share of wireless subscribers and revenue. Aggregate estimates indicate that Reliance Jio, Bharti Airtel, and Vodafone Idea together control the vast majority of India's telecom subscriber base, reflecting an oligopolistic market structure shaped by consolidation over the past decade. Jio and Airtel have consistently increased their subscriber bases and market influence, while Vodafone Idea has faced persistent challenges in retaining customers and achieving sustainable revenue growth. Industry metrics, including average revenue per user, broadband penetration, and capital expenditure intensity, continue to be key performance indicators that influence competitive dynamics, investment decisions, and long-term strategic positioning across operators. Market growth remains supported by increasing smartphone penetration, rising data usage, and enterprise digitisation, though operators must balance expansion with profitability and regulatory compliance.

Structure of the Indian Telecom Market

The structure of the Indian telecommunications market is distinguished by a concentrated wireless services segment led by a small set of large operators. Private sector carriers dominate the wireless landscape, with public sector enterprises such as Bharat Sanchar Nigam Limited and Mahanagar Telephone Nigam Limited holding modest shares. Within the private segment, Reliance Jio and Bharti Airtel have emerged as the

two leading operators by market share, collectively controlling a substantial majority of wireless subscribers. Vodafone Idea, despite its sizeable legacy base, occupies a distant third position, with recent regulatory data showing its share significantly below that of its two largest rivals. The high degree of market concentration reflects the exit of multiple smaller operators over the past decade and the relative lack of new large-scale entrants. The retention of a three-player dynamic is widely viewed as important for preserving competitive pressure, though the structural trend points toward a stronger duopolistic influence by the top two players, particularly if Vodafone Idea's competitive position continues to weaken. Regulatory oversight by the Telecom Regulatory Authority of India aims to balance market efficiency with consumer protections, universal service obligations, and investment incentives, shaping the contours of market structure and operator behaviour.

Competitive Position vs Airtel and Jio

Within the competitive hierarchy, Reliance Jio holds the largest subscriber base and revenue share, leveraging extensive spectrum assets, accelerated 5G rollout, and integrated digital service offerings to sustain growth momentum. Bharti Airtel occupies a strong second position, with a premium positioning strategy anchored in higher average revenue per user, diversified enterprise services, and efficient capital allocation. Vodafone Idea, while historically a significant competitor, has faced structural headwinds including elevated debt levels, constraints on capital expenditure, and comparatively slower network quality improvements. The differential in scale and financial capacity has manifested in subscriber trends over recent reporting periods, with Jio and Airtel consistently registering net additions while Vodafone Idea has experienced subscriber outflows. This divergence underscores the competitive strain on Vodafone Idea's operational model in sustaining customer acquisition and retention at levels commensurate with its larger peers. Distinct strategic priorities have therefore emerged: Jio's emphasis on scale and digital ecosystem integration, Airtel's focus on premium service differentiation and ARPU optimisation, and Vodafone Idea's ongoing efforts to stabilise its position through targeted network investments and policy support.

Pricing Environment and Industry Discipline

The pricing environment in India's telecom sector has evolved markedly over the past decade, transitioning from an era of aggressive tariff competition to a more structured and disciplined regime. Initial price disruption, particularly following the entry of Reliance Jio, catalysed rapid data adoption but exerted sustained pressure on industry profitability and average revenue per user metrics. In subsequent years, the leading operators have

undertaken coordinated tariff revisions to enhance revenue realisation and support network investments, with increases in base plans and premium offerings reflecting broader cost and capital intensity considerations. Average revenue per user has risen across the sector, driven by uptake of higher-value data packages, 5G adoption, and shifts toward postpaid and value-added services. Within this context, tariff adjustments by one major operator are frequently followed by similar revisions from competitors, signalling a degree of mutual reinforcement in pricing strategies. This pattern reflects an industry discipline that balances competitive positioning with the imperative to maintain financial sustainability amidst significant infrastructure deployment costs. Continued regulatory oversight seeks to ensure that pricing practices do not unduly disadvantage consumers while supporting an investment-friendly environment. The trajectory of pricing behaviour in the near term will remain a critical determinant of revenue growth, market share dynamics, and the sustainable competitiveness of Vodafone Idea relative to its larger counterparts.

Core Underweight Thesis

Vodafone Idea continues to operate under significant structural and financial constraints. Despite periodic capital injections, regulatory interventions, and operational efforts, the company faces persistent revenue uncertainty, high leverage, and elevated fixed costs that limit strategic flexibility. These factors collectively weigh on its capacity to compete effectively with larger, better-capitalized peers.

Weak Revenue Growth Visibility

Revenue growth has remained inconsistent over the past decade, with several years of contraction or stagnation despite market consolidation. The company's sales trajectory is highly sensitive to competitive pricing pressures, subscriber churn, and regulatory obligations, making forward revenue visibility uncertain. For example, consolidated sales peaked at Rs. 44,958 crores in FY2020 but have since moderated and shown limited growth, reaching Rs. 44,348 crores on a trailing twelve-month basis.

Balance Sheet Stress and Funding Constraints

Vodafone Idea's balance sheet demonstrates persistent stress. Borrowings remain elevated at Rs. 233,242 crores as of September 2025, and reserves have stayed negative over multiple years, reaching a cumulative deficit of Rs. 190,803 crores. While equity capital has been raised significantly to support operations, the company continues to rely heavily on debt funding, leaving limited headroom for strategic initiatives or large-scale investments.

High Fixed Cost Structure

The company operates a network-intensive business model characterized by high depreciation and interest expenses. Depreciation has averaged above Rs. 22,000 crores annually in recent years, while interest costs remain above Rs. 23,000 crores per annum. This cost structure limits operational leverage and constrains the ability to translate incremental revenue growth into sustainable profitability.

Network Investment Gap vs Peers

Vodafone Idea has underinvested relative to its larger competitors in both spectrum acquisition and network expansion. Capital expenditure, including CWIP, has been irregular and insufficient to close network quality gaps. This lag in network capability has potential implications for subscriber acquisition, retention, and ARPU growth, further compounding revenue growth risks.

Limited Strategic Flexibility

The combination of high leverage, negative reserves, and persistent losses constrains Vodafone Idea's ability to pursue strategic initiatives such as mergers, acquisitions, or diversified service offerings. Negative net profits over multiple years limit reinvestment capacity, making the company highly dependent on external funding and regulatory support to sustain operations.

Operating Performance Analysis

Vodafone Idea's operating performance exhibits a mixed trajectory: while core EBITDA margins have remained relatively resilient, the company's top-line momentum is moderate and inconsistent. Revenue growth has been supported by periodic tariff hikes and gradual monetisation of data services, but remains significantly lower than peers. In recent quarterly results, blended ARPU improved and contributed to modest revenue growth, yet the company continues to report substantial net losses due to high finance costs and depreciation. Despite reported EBITDA margin expansion to around 41.9 percent in Q2 FY26, operating profitability is constrained by elevated cost structures relative to scale and ongoing competitive pressures. Tight liquidity and significant statutory obligations further dilute the sustainability of operating performance improvements.

Subscriber Trends and Mix

Vodafone Idea's subscriber base has been under pressure, with periodic declines in total wireless connections relative to larger competitors. Industry-specific data indicates that Vodafone Idea's subscriber count has trended downward at times, even as peers like Reliance Jio and Bharti Airtel continue to add users, highlighting competitive

disadvantages in acquisition and retention. While 4G/5G subscriber numbers have increased and postpaid customer counts have shown modest gains, the overall subscriber base remains challenged. Contributions from higher value segments such as postpaid and broadband services have improved, but the overall mix still lags peer industry averages in terms of premium customer penetration. The company continues to invest in converting 3G users to 4G/5G to support ARPU enhancement and reduce churn.

ARPU Trajectory

ARPU, a key driver of revenue quality in telecom operations, has shown a generally positive trend recently, driven by tariff increases, customer upgrades, and a higher share of 4G/5G users. Reported blended ARPU rose to approximately ₹180 in Q2 FY26 from lower levels in prior periods, reflecting modest improvement in monetisation per user. Excluding machine-to-machine (M2M) connections, customer ARPU has also increased sequentially. Despite these improvements, Vodafone Idea's ARPU remains materially below that of major competitors; in certain comparative periods, industry peers reported significantly higher ARPU levels, underscoring ongoing competitive disadvantages in pricing power and user mix.

Network Coverage and Quality Indicators

Vodafone Idea has made measurable progress in network expansion and quality upgrades, particularly in its 4G footprint. Population coverage for 4G has improved materially year-on-year, and the company has accelerated site additions and broadband capacity. In the most recent results, 4G population coverage reached over 84 percent, with continued rollouts of 4G and initial 5G services across priority circles. The company has committed to expanding coverage further to compete more effectively on service quality. However, its overall network densification and technology rollout remain behind leading competitors, reflecting historical underinvestment due to financial constraints. Continued capex is necessary to bridge gaps in network quality, especially in rural and high-traffic urban corridors, and to drive broader 5G adoption.

Cost Structure and Margins

The company's cost structure continues to reflect high fixed operating expenses common in telecom, including network operating costs, depreciation, and interest expenses. Although operating costs have been managed to an extent and EBITDA margins have improved modestly, the fixed cost base remains significant relative to revenue. Interest and depreciation expenses continue to erode net profits, and high statutory dues related to spectrum and regulatory obligations further pressure margin sustainability. Vodafone Idea has undertaken selective cost optimisation initiatives to reduce network operating costs and improve efficiency. Nevertheless, the combination of legacy cost burdens and ongoing investment requirements limits near-term margin expansion potential.

Historical Financial Performance

Vodafone Idea has demonstrated a highly volatile financial performance over the past decade, shaped by aggressive industry competition, regulatory obligations, and capital-intensive operations. Revenue growth has been modest over a ten-year period, with a 10-year compounded sales growth rate of approximately three percent. Over the five-year period, sales have shown a slight decline of one percent, reflecting competitive pressures, pricing challenges, and subscriber churn. In the most recent three-year period, sales have increased at a compound annual growth rate of four percent, with trailing twelve months sales standing at Rs. 44,348 crores, reflecting modest recovery in revenue momentum through incremental tariff increases and growing data consumption.

Operating profit has displayed significant volatility. While the company reported operating profit of Rs. 8,282 crores in FY2014, margins contracted sharply during FY2018 and FY2019 due to declining revenue and high interest and depreciation expenses. Operating profit rebounded in FY2020 to Rs. 14,916 crores, driven by operational efficiency and cost rationalization initiatives. Current operating margins have stabilized around forty-one to forty-two percent, reflecting improved operating leverage.

Net profit, however, remains negative and structurally weak. Despite operating profitability, net profit has consistently recorded losses over the last several years due to substantial finance costs and depreciation. For instance, FY2020 reported a net loss of Rs. 73,878 crores, primarily due to high other income write-offs and exceptional items, while FY2025 recorded a net loss of Rs. 27,383 crores. Earnings per share similarly remain negative at Rs. 3.07 on a trailing twelve-month basis, highlighting persistent pressure on shareholder returns.

Cash Flow Generation and Usage

Cash flow trends underscore limited internal funding capacity. Cash from operating activities has generally been positive, reflecting strong operational cash conversion relative to net losses. For instance, operating cash inflows rose from Rs. 8,219 crores in FY2014 to Rs. 20,826 crores in FY2024, although the trailing twelve months show a decline to Rs. 9,291 crores.

Cash from investing activities has been predominantly negative, driven by network capex, spectrum payments, and capital work in progress. FY2017 registered an outflow of Rs. 15,556 crores, while FY2025 cash outflow was Rs. 16,248 crores, reflecting ongoing investment in network quality and coverage expansion.

Cash from financing activities has fluctuated based on equity infusions, borrowings, and repayment schedules. FY2021, for example, saw a net outflow of Rs. 16,731 crores,

whereas FY2015 witnessed an inflow of Rs. 8,028 crores due to capital raising. Net cash flows have therefore been highly variable, occasionally positive due to equity capital infusions but often negligible or slightly negative, indicating constrained liquidity for discretionary investments or strategic flexibility.

Debt Profile and Interest Burden

Vodafone Idea carries a substantial debt load. Consolidated borrowings have grown from Rs. 20,637 crores in FY2014 to Rs. 233,242 crores as of September 2025. Peak borrowings were recorded in FY2024 at Rs. 243,809 crores. Interest expense remains persistently high, reaching Rs. 23,088 crores in the trailing twelve months.

High leverage has amplified financial risk, as interest coverage remains inadequate relative to operating cash flow in several periods. For example, in FY2020, despite operating profit of Rs. 14,916 crores, interest payments of Rs. 15,393 crores exceeded operating profit, resulting in negative net earnings. The capital structure reflects reliance on external funding, limited equity cushion, and constrained capacity for organic debt repayment or strategic acquisition financing.

Equity capital has been strengthened periodically through rights issues and equity infusions, rising from Rs. 3,320 crores in FY2014 to Rs. 108,343 crores by September 2025. However, reserves remain deeply negative at Rs. 190,803 crores, illustrating the cumulative effect of historical losses and the structural erosion of retained earnings.

Liquidity Position

Vodafone Idea's liquidity position has been fragile and uneven, dictated by cash flow generation and the timing of equity or debt financing. Cash and equivalents are constrained relative to near-term obligations, with reliance on short-term borrowings and capital injections to meet working capital requirements.

Despite positive operating cash flows in most periods, large outflows for capex, spectrum payments, and debt service limit discretionary liquidity. The company has shown an ability to raise capital during stress periods, but its operational cash buffer is insufficient to absorb major financial shocks without external support.

High working capital requirements, combined with negative reserves and large scheduled debt repayments, imply limited financial flexibility. Liquidity remains contingent on timely regulatory support, debt restructuring, and successful capital infusion strategies.

Balance Sheet Analysis

Total assets have fluctuated between Rs. 46,557 crores in FY2014 and Rs. 188,548 crores in September 2025, reflecting heavy investments in fixed assets and network expansion. Fixed assets represent the largest component of the balance sheet, consistently above Rs. 140,000 crores, highlighting the capital-intensive nature of telecom operations.

Capital work in progress has varied significantly, peaking at Rs. 18,212 crores in FY2024, indicative of ongoing network build-outs and technology upgrades. Other assets, including receivables and current assets, have generally remained moderate relative to total liabilities, reflecting limited liquidity coverage.

Total liabilities have increased materially, largely due to borrowings, rising from Rs. 46,557 crores in FY2014 to Rs. 188,548 crores in September 2025. Other liabilities include regulatory dues, vendor payables, and statutory obligations, with substantial swings observed due to episodic adjustments.

Profit and Loss Analysis

The P&L reflects persistent operational stress despite periods of EBITDA resilience:

- Sales: Consolidated sales grew from Rs. 26,519 crores in FY2014 to Rs. 44,348 crores TTM, representing low-to-moderate revenue growth relative to sector expansion.
- Operating Profit: Operating margins have expanded to forty-one to forty-two percent in recent periods, reflecting cost rationalization, although absolute profitability is offset by high interest and depreciation.
- Other Income: Volatile, including exceptional charges in FY2020 and FY2021, affecting net profitability.
- Interest and Depreciation: Combined charge exceeds Rs. 45,000 crores annually, often surpassing operating profit, highlighting structural cost constraints.
- Net Profit: Deeply negative across multiple periods, with cumulative erosion of reserves and shareholder value.
- EPS and Dividend: Negative EPS of Rs. 3.07 TTM, with no dividend payout in recent years, consistent with loss-making profile.

Cash Flow Analysis

Cash flow trends underscore operational resilience relative to net losses, with operating cash inflows consistently positive.

- Operating Activities: Cash generation increased from Rs. 8,219 crores in FY2014 to Rs. 20,826 crores in FY2024, reflecting stable EBITDA conversion.
- Investing Activities: High capex and spectrum payments result in negative investing cash flows in most periods.
- Financing Activities: Highly variable, reflecting a combination of equity infusions, debt issuances, and repayments.
- Net Cash Flow: Fluctuated from negative Rs. 811 crores in FY2014 to slightly positive Rs. 89 crores TTM, reflecting reliance on financing activities for liquidity support.

Conclusion

Vodafone Idea's financial profile reflects a highly leveraged, capital-intensive operation with structural net losses, constrained liquidity, and limited strategic flexibility. While operating margins have shown stability, net losses, negative reserves, and high interest burdens highlight persistent financial risk. Cash flows are reliant on both operational inflows and episodic financing, leaving the company vulnerable to market, regulatory, and competitive pressures. From a buy-side perspective, the risk-reward profile remains unfavourable under current conditions, reinforcing an underweight recommendation, with neutrality only under scenarios of sustained capital infusion or regulatory relief.

Valuation

We assess the valuation of Vodafone Idea through intrinsic, relative, and scenario-based lenses to determine whether the company's current market price implies under, fair, or overvaluation from a disciplined perspective. The unique financial stresses facing Vodafone Idea necessitate a valuation framework that integrates traditional multiples where appropriate with firm-specific risk adjustments and scenario analysis.

Valuation Approach

We adopt a hybrid valuation methodology tailored to Vodafone Idea's loss-making profile and heavy leverage. Earnings multiples such as Price/Earnings are not meaningful due to persistent net losses. Instead, we prioritise Price-to-Sales (PS), EV/EBITDA, and discounted cash flow (DCF) constructs, supplemented with scenario analysis that accounts for capital structure risk and regulatory uncertainties.

Recent valuation data indicate Vodafone Idea's PS ratio at approximately 2.6x–2.9x, substantially below the broader Indian telecom peer average of roughly 5.6x. This reflects the market's discount for Vodafone Idea's weaker revenue quality and structural risk relative to peers such as Bharti Airtel and Indus Towers. PS relative to imagined fair peer multiples suggests potential valuation support if operational and cash flow conditions materially improve.

EV/EBITDA ratios also illustrate the complexity of valuation. Reported EV/EBITDA metrics vary by source but remain high and volatile, with some estimates near **19x** or higher, reflecting both significant enterprise valuation and lower EBITDA bases. The reliability of such multiples is limited given negative earnings and the effect of statutory dues and other non-operating charges.

Base Case Assumptions

Our base case assumes modest revenue growth sustained primarily by incremental ARPU improvement and stabilisation of subscriber mix, but restrained by intense competition and limited network investment. Operating cash flow is expected to improve slowly, though significant interest and depreciation charges may continue to erode net profitability for several years. Capex commitments remain substantial relative to internal cash generation, and working capital improvements are assumed to be minimal absent major structural reforms.

We apply a higher discount rate in any intrinsic model to reflect execution risk, funding constraints, and regulatory liabilities, notably deferred adjusted gross revenue (AGR) payments crystallising in later years. These factors elevate the weighted average cost of capital relative to peers.

Under these disciplined assumptions, intrinsic valuations derived from DCF frameworks generally suggest that the current market price implies limited or negative fundamental upside. Certain DCF attempts indicate negative intrinsic values for the equity component, signalling deep structural risk rather than traditional growth value.

Downside Scenarios

Downside risk in our valuation is material. Scenarios where revenue growth flattens, ARPU fails to sustainably increase, or network investment lags peers materially reduce operating cash flow and free cash flow. Persistent high interest burden and statutory liabilities under downside conditions compress valuation multiples further. DCF valuation under such scenarios can produce highly depressed or negative equity valuations.

Additional regulatory exposures, such as tax penalties and unresolved AGR interest liabilities, can further strain cash flows and reduce enterprise value. Recent tax penalties levied by authorities underscore ongoing uncertainty around contingent cash outflows.

Relative Valuation vs Peers

Relative to Indian telecom peers, Vodafone Idea's valuation multiples are discounted. Its PS ratio is below the peer average, and limited profitability metrics further widen the discount relative to profitable competitors. A PS ratio of ~2.6x compared with a peer average near ~5.6x suggests that the market is pricing in Vodafone Idea's structural disadvantages.

However, peer multiples also reflect stronger balance sheets and more predictable earnings paths, meaning direct comparison must be adjusted for quality differences. Vodafone Idea's negative earnings and high leverage justify a discounted relative multiple, but the current valuation likely already embeds substantial distress risk.

Valuation Conclusion

We conclude that Vodafone Idea is currently overvalued at prevailing market prices relative to intrinsic value under reasonable fundamental assumptions and consistent with scenario analysis. Intrinsic valuation exercises that adjust for persistent losses, high cost of capital, and structural risk frequently produce negative or very low fair values. Relative valuation while showing a discount via PS does not compensate sufficiently for the quality and solvency risk embedded in Vodafone Idea's financial profile.

While short-term technical drivers and speculative price movements can create episodic rallies, from a fundamental valuation perspective, we assess Vodafone Idea's equity as overvalued relative to its sustainable cash flow prospects and risk-adjusted valuation benchmarks. Should strategic initiatives substantially improve profitability, materially reduce leverage, and resolve regulatory liabilities, this assessment would warrant revisiting.

Alternative View: Neutral Thesis

We present a Neutral thesis for Vodafone Idea that contrasts with a strictly underweight view by acknowledging potential stabilisation drivers and structural optionality. This alternative perspective recognises that certain industry dynamics, regulatory actions, and strategic developments could support a recovery pathway or at least a stabilisation of operating performance and valuation outcomes.

Industry Pricing Upside

We observe that the Indian telecom industry has been moving toward higher pricing structures, which can benefit all operators, including Vodafone Idea. Recent industry-wide tariff adjustments indicate that mobile pricing levels are rising to better align with cost structures and data usage patterns. This trend is important because India's average revenue per user (ARPU) has historically been among the lowest globally despite high data consumption, underscoring a structural opportunity for pricing improvement. Industry commentary confirms that tariff increases are necessary for sustainable returns on capital and future investment funding. Vodafone Idea's management has publicly stated that prices need to rise further to generate reasonable returns and support network investments, reflecting management recognition of this structural pricing opportunity.

Tariff hikes implemented by Vodafone Idea and its peers have already contributed to quarterly ARPU increases, with reported sequential growth in mobile service ARPU. This suggests that more disciplined pricing may help support a stabilisation in revenue growth and yield improvement. Robust pricing actions could help narrow the ARPU gap with competitors and partially offset subscriber churn.

Potential for Operating Stabilisation

While Vodafone Idea's financials have been undermined by heavy interest and depreciation charges, there are early signs that operating performance may stabilise as pricing power improves and cost rationalisation initiatives take effect. Recent quarters have shown ARPU growth and modest revenue increases, even as subscriber base trends remain mixed. Incremental tariff actions have begun to reflect in financial performance, and this could set the stage for more sustainable operating cash flows if pricing discipline continues.

Network investments, especially in 4G and initial 5G rollouts, remain critical to competitiveness. Vodafone Idea's focused capex in priority circles and efforts to improve network quality can support customer retention and gradually improve service monetisation. While these initiatives require capital, they also signal that the company is prioritising operational areas with the highest revenue potential.

Government Support and Strategic Options

Government involvement has been a material factor in Vodafone Idea's financial trajectory. The Indian government's decision to increase its stake to nearly 49 percent by converting spectrum auction dues into equity was a significant structural lever intended to ease near-term financial pressure and support the three-player competitive structure in the telecom market. While the government has stated that further equity conversions

are unlikely, this existing backing has provided a degree of strategic support that differentiates Vodafone Idea from pure private sector distress scenarios.

More recently, government measures to freeze or defer adjusted gross revenue (AGR) dues over longer horizons provide operating cash flow relief and reduce short-term liquidity strain, even though they do not eliminate the total obligations. This type of relief reduces near-term cash burn and creates greater runway for operational stabilisation.

Ongoing engagement between Vodafone Idea and government authorities, including discussions around strategic investor interest and potential long-term capital raises, underscores the fact that multiple support mechanisms remain in play. For example, reports indicate that the government actively seeks strategic investors willing to invest significant capital to strengthen Vodafone Idea's balance sheet.

Optionality at Current Valuation

From a valuation standpoint, Vodafone Idea's discounted multiples and distressed metrics already reflect a high degree of risk in the market. Given a neutral thesis perspective, current valuations embed significant negative expectations, which can present optionality for investors if structural improvements materialise.

Brokerage research has highlighted potential upside scenarios in valuation assuming successful execution of tariff hikes, network improvements, debt restructuring, and fundamental operating stabilisation. Some analysts have projected meaningful share price targets under such conditions, illustrating possible re-rating potential if risks abate and performance stabilises.

The combination of potential pricing tailwinds, stabilising operating metrics, existing government support, and deeply discounted valuation multiples suggests that future optionality exists. This optionality is particularly relevant if broader industry conditions shift in favour of higher ARPUs, disciplined pricing, and improved cost structures supported by regulatory predictability.

Summary

In a neutral thesis framework, Vodafone Idea is neither fundamentally broken nor poised for imminent collapse. Instead, it occupies an uncertain but stabilising equilibrium, where structural pricing improvements, operational focus, and government support could gradually improve business fundamentals while current market valuations continue to price in significant risk.

Key elements supporting this neutral view include:

- Industry pricing improvements that can bolster revenue quality and ARPU metrics.

- Evidence of operating stabilisation, with recent ARPU upticks and modest revenue growth.
- Strategic government support and ongoing dialogues to secure liquidity and competitive balance.
- Valuation optionality reflective of downside risk already being priced in, allowing for potential re-rating if execution meets expectations.

This neutral perspective should be viewed as conditional on continued execution, regulatory clarity, and market discipline in pricing, rather than a full turnaround thesis. The near-term risk profile remains elevated relative to stronger peers, but there is a plausible pathway for Vodafone Idea to stabilise operations and reduce risk over time.

Assessment of the Neutral Case

This section evaluates the Neutral thesis for Vodafone Idea by identifying where we can reasonably agree with the neutral view, where the core points of disagreement lie, and the execution and timing risks that influence the credibility and timing of this thesis.

Areas of Agreement

- 1. Industry Pricing Dynamics and ARPU Upside**
We agree that industry pricing has trended upward, reflecting better pricing discipline across major operators. Recent market narratives suggest that tariff hikes and increasing ARPU are beginning to contribute positively to operating performance, potentially improving Vodafone Idea's revenue quality over time. In late 2025, tariff increases and expectations of further pricing actions were cited as catalysts for renewed investor interest.
- 2. Temporary Policy Relief Reduces Near-Term Cash Burn**
We also acknowledge that recent regulatory developments have provided temporary relief that can help stabilise cash flows in the short term. A partial moratorium on AGR dues and government actions to freeze existing dues have materially eased near-term cash outflows, allowing the company to defer large statutory payments into the next decade.
- 3. Speculative Market Interest Does Not Equal Structural Turnaround**
The stock's recent performance around AGR relief expectations and a ₹3,300 crore NCD fundraising highlights speculative interest rather than fundamental improvement. This indicates that valuation is increasingly driven by narrative and policy speculation, which is consistent with the neutral view that "the market has priced in some relief optionality."

Key Points of Disagreement

1. Stability of Operating Fundamentals

We disagree with the notion that operating performance is definitively stabilising. While ARPU may be increasing in select quarters, the underlying revenue base remains subdued relative to total costs, and subscriber retention issues persist due to competitive pressures, especially as competitors maintain stronger network coverage and service offerings. In the absence of sustained network investment, pricing alone may not arrest customer attrition.

2. Extent of Government Support

The neutral thesis may overstate the likelihood or extent of future government support. Recent official statements from government sources confirm no additional relief beyond equity conversion to a 49 percent stake and no new direct financial relief as of year-end 2025. This suggests a limited policy space for aggressive government intervention beyond what has already been provided.

3. Structural Profitability vs Singe-Digit Valuation Upside

Neutral narratives occasionally imply that Vodafone Idea's valuation discount offers optionality if operations stabilise. However, our analysis finds that structural profitability remains weak, and sustained positive free cash flow sufficient to cover high interest and capex obligations has not been demonstrated. Temporary metrics like tariff-driven ARPU increases do not confirm long-term earnings power.

Execution and Timing Risks

1. Regulatory and Legal Uncertainty

A key execution risk is regulatory clarity on AGR dues and other statutory obligations. The company continues to face unresolved legal and policy dynamics regarding AGR liabilities and interest/penalty components. Recent actions confirm that AGR relief has been partial at best, and future policy moves remain uncertain.

2. Funding and Capital Access

Vodafone Idea's neutral thesis assumes access to funds for network investment and debt servicing. In reality, bank lending remains constrained, and funding at scale is not assured without sovereign or systemic support. This creates a timing risk wherein the company may be unable to invest sufficiently to remain competitive, undermining the neutral thesis of stabilisation.

3. Competitive Execution

Even if tariff discipline and pricing improvements continue, Vodafone Idea must still execute on network upgrades, customer retention, and service quality improvements to

meaningfully slow churn and improve ARPU in a competitive environment led by Reliance Jio and Bharti Airtel. The neutral thesis assumes this scaling is feasible, but execution timelines and capital constraints make such improvements uncertain.

4. Balance Sheet and Insolvency Risk

There is credible evidence that without timely support, Vodafone Idea could face severe solvency pressure. Analysts and the company itself have indicated that operations may not be sustainable beyond FY2025-26 without government or banking support. This structural risk can materialise faster than stabilisation narratives suggest and is a critical execution risk factor.

Summary of the Neutral Case Assessment

We find partial agreement with the neutral thesis on short-term pricing benefits and headline policy relief. However, we disagree with the implied confidence in structural stabilisation and sustainable improvement without substantial execution on funding, network investment, and legal resolution.

The **execution and timing risk remains high**, with critical determinants being regulatory outcomes, access to capital at manageable costs, and Vodafone Idea's ability to stabilise operational metrics in the face of intense competition. Neutral valuation optionality derives mainly from policy asymmetry and speculative sentiment rather than demonstrable improvements in cash flow fundamentals.

Key Risks to the Underweight View

While the underweight thesis for Vodafone Idea is grounded in persistent structural challenges, there are several concrete risk factors that could materially weaken that view if positive developments emerge. Below we outline the most significant upside risks to the underweight assessment from a disciplined buy-side perspective.

Sharper-than-Expected Tariff Increases

A major risk to the underweight view arises if Vodafone Idea is able to implement tariff increases that materially outperform consensus expectations. Industry pricing discipline and structural tariff realignment have begun to show results, with reported average revenue per user (ARPU) increasing sequentially in recent quarters as upgrades to higher-priced plans take effect. Sustained and more aggressive tariff hikes could meaningfully improve revenue quality, reduce the gap with competitive peers, and accelerate operating cash flow generation. However, achieving this without triggering

disproportionate subscriber churn requires precise calibration of price and service value, given affordability constraints in the Indian market.

If ARPU gains are sharper and more durable than currently priced into fundamentals, Vodafone Idea's revenue trajectory and free cash flow prospects improve, lessening the extent of structural erosion underpinning the underweight thesis.

Faster Subscriber Stabilisation

The underweight thesis assumes continued pressure on Vodafone Idea's subscriber base due to competitive disadvantages in network quality and capital investment. A risk to this view emerges if the company successfully stabilises or grows its subscriber base faster than expected, either through improved 4G/5G rollouts or differentiated customer value propositions.

Recent data show that while wireless subscriber counts have historically declined, there are pockets of growth in other subscriber segments, and anecdotal evidence suggests incremental gains in wireline or fixed broadband could provide modest support.

Substantial improvement in subscriber retention or net additions would strengthen the topline base, improve ARPU mix, and enhance operational leverage, all of which could erode the severity of the underweight case.

Capital Raise or Strategic Investor Entry

Regulatory decisions remain a major uncertainty that cuts both ways. The Indian government has recently granted temporary relief via moratorium or deferral of adjusted gross revenue (AGR) payment obligations, providing important short-term relief to cash flows. While these measures do not reduce total liabilities, they defer significant cash outlays into future years, easing the immediate liquidity burden.

Any further regulatory alleviation, such as extended moratoriums, partial waivers of interest and penalties, recalibration of AGR dues in Vodafone Idea's favour, or industry-wide structural relief measures, would materially improve the company's ability to invest and compete. However, there is also evidence that such support may be limited, with government officials indicating no further equity conversion beyond existing stakes.

While regulatory relief historically has been a double-edged sword, outcomes that significantly reduce statutory burden or extend payment flexibility beyond current policy expectations would directly weaken the underweight thesis by improving cash flow stability and strategic optionality.

Summary

We acknowledge that the underweight stance reflects fundamentals under current conditions, but it is not immune to positive catalysts. Specifically:

- Sharper tariff hikes could accelerate revenue momentum and improve ARPU beyond current forecasts.
- Subscriber base stabilisation or growth could enhance topline resilience and expand cash flows.
- Successful capital raising or strategic investor entry could strengthen the balance sheet and support network competitiveness.
- Beneficial regulatory developments could materially ease cash flow and statutory liabilities.

Each of these factors, if realised to a degree materially above consensus expectations, would mitigate downside risk embedded in the underweight view and could justify a reassessment toward neutral or, in specific outcomes, even selective overweight positioning. The magnitude and timing of these developments remain substantial execution risks and should be closely monitored against macro and industry dynamics.

Conclusion

Summary of Investment View

We maintain a Prevailing Underweight stance on Vodafone Idea based on a detailed assessment of the company's financial and operational fundamentals, competitive positioning, and structural challenges. The company continues to report substantial net losses, constrained cash flows, and a heavily leveraged balance sheet, all of which limit its ability to fund ongoing 4G and 5G network investments at the scale required to compete effectively. While recent tariff increases and modest revenue improvements provide some relief, they are insufficient to offset structural deficits in average revenue per user, subscriber retention, and overall market share relative to Reliance Jio and Bharti Airtel.

The Indian telecom market is dominated by these two players, which enjoy superior financial flexibility, operational scale, and network coverage, creating a strategic disadvantage for Vodafone Idea. The company's inability to match competitor investment levels has translated into persistent operational challenges, including reduced service quality, slower adoption of next-generation network services, and ongoing customer churn. Under these circumstances, the likelihood of meaningful

improvement in revenue, cash flow, and profitability remains low, reinforcing the Underweight rating.

Conditions for Rating Change

While our current stance is Underweight, we acknowledge that specific developments could warrant a reassessment of the rating:

1. Material tariff upside: Sharper and sustainable ARPU improvements beyond consensus expectations could enhance revenue quality and free cash flow generation.
2. Subscriber base stabilization or growth: Faster retention of active users or net additions in wireless or fixed broadband segments could improve operational leverage.
3. Capital infusion or strategic partnership: Successful large-scale funding, equity injection, or entry of a strategic investor could strengthen the balance sheet and fund competitive network investments.
4. Regulatory support: Additional government measures, including moratoriums, debt restructuring, or policy interventions to preserve three-player market dynamics, could mitigate downside risks.

Achievement of one or more of these conditions, executed effectively and sustainably, could support a transition toward a Neutral rating and materially reduce the downside risk embedded in the current Underweight stance.

Integrated Investment View

We remain Underweight, but the Neutral perspective highlights that Vodafone Idea's downside is partially mitigated by policy and strategic considerations. While fundamentals alone support an Underweight position, selective monitoring of tariff trends, subscriber stability, capital inflows, and regulatory developments is essential for potential rating reassessment. Execution risks and structural limitations remain high, making cautious positioning appropriate at current market valuations.

Personal Closing Note from the Authors

While preparing this paper on Vodafone Idea, our goal was to move beyond headline numbers to build a framework for understanding risk, resilience, and long-term decision-

making in complex, highly leveraged businesses. Our objective was not only to assess the company's financial and operational position, but also to explore how structural constraints, strategic choices, and market dynamics interact to shape outcomes. This exercise brought together three perspectives. As aspiring portfolio managers, we focused on capital allocation, liquidity management, and balance sheet resilience. As investment banking analysts, we examined strategic flexibility, competitive positioning, and funding implications. As risk managers, we emphasized stress testing, downside scenarios, and governance in preserving long-term optionality. Working on this report reinforced that company performance is rarely driven by a single factor. Vodafone Idea's challenges reflect multiple interacting dynamics, from leverage and high fixed costs to competitive pressures and regulatory obligations. Understanding these requires attention to both quantitative metrics and qualitative factors, including strategic decisions and market perception. This project represents an important step in our learning journey. Writing it required questioning assumptions, integrating diverse viewpoints, and connecting theory with practice. We hope readers find value not only in the insights on Vodafone Idea, but also in the broader framework for analysing risk, strategic choice, and resilience in challenging business environments.

We thank you for engaging with this report and hope it contributes meaningfully to your understanding of how structural, strategic, and financial choices shape the trajectory of high-leverage companies.

We leave the reader with a line that captures both caution and hope in navigating fragile, leverage-driven environments:

"The best is yet to come"

—Frank Sinatra

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Disclaimer

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