

Government Increases Stake in Vodafone Idea: Equity Conversion & AGR Dues

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Vodafone Idea Equity Conversion Latest News

- The Indian government will increase its stake in Vodafone Idea (Vi) to nearly 49% by converting an additional ₹36,950 crore of the company's dues into equity.
- Previously holding about 23%, the government will become the largest shareholder, though promoters will retain operational control.

- Vi has been directed to issue 3,695 crore shares at ₹10 per share, a premium of over 47% since its market price was ₹6.8. The dues primarily include outstanding spectrum auction payments and deferred liabilities post-moratorium.

Background: Vodafone Idea and the issue of AGR

- Vodafone Idea (Vi) faces significant financial challenges stemming from the Supreme Court's ruling on Adjusted Gross Revenue (AGR) dues, which led to the company being burdened with substantial debt and penalties.
 - AGR is a metric used to determine the revenue that telecom operators must share with the government in the form of spectrum usage charges or licensing charges.

AGR Calculation and Controversy

- The Department of Telecom (DoT) mandates that AGR includes all revenues, including non-telecom sources like deposit interest and asset sales.
- Telecom companies argue that AGR should only include revenue from telecom services, excluding non-telecom earnings.

Legal Battle Over AGR Definition

- A long-standing dispute between telecom operators and the government led to a legal battle over AGR calculations.
- In October 2019, the Supreme Court ruled in favor of the government, expanding AGR to include all revenues except termination fees and roaming charges.

Final Supreme Court Ruling (2020)

- On September 1, 2020, the Supreme Court upheld the government's AGR definition and directed telecom companies to pay AGR dues, including interest and penalties.
- Telcos were allowed to clear dues in yearly installments from April 1, 2021, to March 31, 2031.
- Defaults would attract additional penalties and be considered contempt of court.

Government's Relief Measures (2021)

- In September 2021, the Union Cabinet approved a telecom reforms package to improve liquidity and ease of doing business.
- Telcos were offered a four-year moratorium (set to expire in October 2025) on spectrum and AGR dues.
- The government also allowed a one-time option to convert the interest on deferred payments into equity at the end of the moratorium period.

Second Lifeline for Vodafone Idea

- The government has provided another financial boost to Vodafone Idea (Vi) by converting spectrum auction dues into equity, following a similar move in February 2023.
 - In February 2023, the government converted ₹16,000 crore of Vi's interest liabilities into equity, acquiring a 33.1% stake.
 - The 2021 telecom reforms allowed telcos to convert government dues into equity, including the option to convert moratorium principal post-September 2025.
- The Ministry of Communications decided to convert outstanding spectrum auction dues into equity under Section 62(4) of the Companies Act, 2013.

Vodafone Idea's Debt Burden

- As of December 2024, Vi's total debt stood at approximately ₹2.3 lakh crore.
 - ₹77,000 crore in AGR (Adjusted Gross Revenue) liabilities.
 - ₹1.4 lakh crore in spectrum liabilities.

Share Pricing Controversy

- Although Vi's shares traded at ₹6.8, the government had to acquire shares at ₹10 (a 50% premium) due to legal provisions preventing issuance below the par value.
- This rule forces the government to pay a significantly higher price despite the lower market value.

Impact of Equity Conversion on Vodafone Idea

- **Debt Reduction and Payment Relief**
 - The equity conversion helps Vi reduce part of its spectrum dues, preventing an immediate financial burden.
 - Without this move, Vi would have faced a ₹40,000 crore annual installment after the moratorium ends in September 2025.
 - Analysts estimate this could provide the company with a financial runway for another two years.
- **Limited Debt Reduction and Ownership Constraints**
 - Vi's total debt stands at ₹2.1 lakh crore, and this conversion reduces only ₹37,000 crore of it.
 - No fresh capital infusion accompanies this move, leading to further dilution of existing shareholders.
 - The government cannot convert more debt into equity without exceeding 50% ownership, which would turn Vi into a PSU (Public Sector Undertaking).
- **Potential for Raising New Debt**
 - Vi has been seeking to raise ₹25,000 crore in debt.
 - Increased government ownership may boost investor and bank confidence, making it easier for the company to secure loans.

Vodafone Idea Equity Conversion FAQs

Q1. Why is the government increasing its stake in Vodafone Idea?

Ans. The government is converting ₹36,950 crore of Vodafone Idea's spectrum dues into equity, raising its stake to 49%.

Q2. What is the impact of AGR dues on Vodafone Idea?

Ans. AGR dues contributed to Vodafone Idea's heavy debt, forcing the company to seek government relief through equity conversion.

Q3. How does equity conversion benefit Vodafone Idea?

Ans. It reduces immediate financial pressure by lowering debt, avoiding a ₹40,000 crore annual payment after the moratorium ends in 2025.

Q4. Why did the government acquire Vodafone Idea shares at ₹10?

Ans. Legal provisions prevent issuing shares below the par value, forcing the government to buy them at a premium over market price.

Q5. Will Vodafone Idea raise more funds after this move?

Ans. Increased government stake may boost investor confidence, helping Vodafone Idea raise ₹25,000 crore in debt for operations and expansion.

Source: [IE](#) | [BS](#) | [MC](#)

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