

UTI Mutual Fund

Update on exposures of Scheme(s) of UTI Mutual Fund in Vodafone Idea Limited

Company Background

Vodafone India Limited merged into Idea Cellular Limited on August 31, 2018, post which the name of the company was changed to Vodafone Idea Limited. Vodafone Idea Limited, which is owned 44.39% by Vodafone and 27.18% by Aditya Birla Group (Source: BSE shareholding data as on December 31, 2019), is one of the largest telecom service providers in India with ~33.6 crore subscriber base as on November 30, 2019 implying a 29.12% wireless subscriber's market share in the Indian telecom market. (Source: TRAI press release dated 16/01/2020). The company provides voice and data services on 2G, 3G and 4G technologies across 22 circles in India.

Event Update

- **Background of Adjusted Gross Revenue (AGR) Issue**

AGR is the annual revenue of telecom companies which is used to calculate the levies such as License Fees and Spectrum Usage Charge (SUC), calculated as a percentage of AGR, which telecom operators pay to government. AGR definition, according to license terms, includes non-telecom revenue such as interest income, dividend, handset sales, profit from sale of scrap and other miscellaneous income. In a case filed in 2005, telecom operators argued that since this revenue does not pertain to telecom activities, DoT should not levy Spectrum Usage Charges (SUC) thereof.

- **Recent Supreme Court Judgement**

The Hon'ble Supreme Court, on Adjusted Gross Revenue (AGR) demands of Department of Telecom (DoT), had upheld the demands of DoT (Source: NSE filing of Vodafone Idea Limited on October 25, 2019). Post this judgement, Vodafone Idea Limited, along with other telecom operators had filed a review petition in Hon'ble Supreme Court.

On January 16, 2020, the Hon'ble Supreme Court has dismissed the review petition. The company is now exploring further options including filing of a Curative Petition. (BSE filing of Vodafone Idea Limited on January 16, 2020). The deadline to pay the AGR dues by telecom companies is January 23, 2020.

- **Liability on Vodafone Idea Limited**

Vodafone Idea Limited accounted for an estimated liability of Rs. 27,610 crore related to License Fee and Rs. 16,540 crore related to Spectrum Usage Charges up to September 30, 2019. (Source: Q2FY20 earnings presentation dated November 14, 2019 on BSE website). The due date for payment of AGR dues of Rs. 44,150 crores is January 23, 2020 as per the Supreme Court order of October 24, 2019. The absence of any relief from the Hon'ble Supreme Court on January 16, 2020 has created high uncertainty regarding the viability of Vodafone Idea Limited to continue as a going concern. As per news reports, the promoters of VIL had also expressed the inability of VIL to remain financially solvent without material relief or support from the Government.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully

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Rationale for valuation

AMFI has appointed two rating agencies viz. CRISIL and ICRA for providing the day end valuation in respect of debt securities. Given the above uncertainties and to protect the interest of the unitholders, UTI AMC has decided to value the NCDs of Vodafone Idea Ltd at the lower of the two prices provided by the valuation agencies with effect from January 17, 2020. UTI AMC would review the valuations based on future developments and keep the investors informed.

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Impact on Valuation – January 17, 2020

Scheme Name	ISIN	Issuer Name	Rating	Fair Valuation based Price per debenture	Valuation Agencies based Price per debenture	Impact on NAV as of January 17, 2020 (Rs. Crores)	Impact on NAV as of January 17, 2020 (%)
UTI - Bond Fund	INE669E08284	VODAFONE IDEA LTD	CARE BBB-	350000	425508	-4.64	-0.98%
UTI - CCF - Saving Plan	INE669E08284	VODAFONE IDEA LTD	CARE BBB-	350000	425508	-5.66	-0.16%
UTI - Credit Risk Fund.	INE713G08046	VODAFONE IDEA LTD	CRISIL BBB-	350000	426200	-11.43	-0.94%
UTI - Credit Risk Fund.	INE669E08284	VODAFONE IDEA LTD	CARE BBB-	350000	425508	-7.17	-0.59%
UTI - Credit Risk Fund.	INE669E08292	VODAFONE IDEA LTD	BWR BBB-	350000	425145	-6.01	-0.49%
UTI - Dynamic Bond Fund.	INE669E08284	VODAFONE IDEA LTD	CARE BBB-	350000	425508	-1.89	-0.44%
UTI - Fixed Term Income Fund Series XXX-IX (1266 Days)	INE669E08284	VODAFONE IDEA LTD	CARE BBB-	350000	425508	-0.45	-0.72%
UTI - FTIF - Series XXVII - Plan II (1161 Days)	INE713G08046	VODAFONE IDEA LTD	CRISIL BBB-	350000	426200	-0.76	-0.24%
UTI - Medium Term Fund	INE669E08284	VODAFONE IDEA LTD	CARE BBB-	350000	425508	-0.38	-0.17%
UTI - Regular Savings Fund.	INE669E08284	VODAFONE IDEA LTD	CARE BBB-	350000	425508	-12.84	-0.64%
UTI - Retirement Benefit Pension Fund	INE669E08284	VODAFONE IDEA LTD	CARE BBB-	350000	425508	-1.89	-0.07%
UTI - Unit Linked Insurance Plan	INE669E08284	VODAFONE IDEA LTD	CARE BBB-	350000	425508	-5.10	-0.11%

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