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Comprehension Test Quiz 74

Directions: Read the passage carefully and answer the questions given below.

Paragraph 1: Citing a likely negative free cash flow situation due to heavy debt repayments over the next 18 months, global ratings agency Moody's has lowered the credit outlook on Reliance Industries to 'stable' from 'positive' but retained the Baa2 ratings its long-term debt. The country's richest and most profitable company will see large cash outflow over the next 18 months towards paying back its creditors for the billions of dollars of capex it had incurred on telecom business as well refining and petrochemical expansions in the past few years.

Paragraph 2: This will lead the energy and telecom **conglomerate**, which already is the largest forex borrower in the country, to tap the debt market more as a result of which it will not be able to reduce its debt and also its free cash flow to be in the negative territory for next 18 months or so, it warned.

Paragraph 3: However, it noted that though the refining and petrochem capex is almost complete, the cash outflow will still remain high as payments to creditors for the past capex are made over the next 12-18 months. For the quarter to September, RIL, which has a Rs 6 trillion market capitalisation, saw its cash pile falling to Rs 77,014 crore at the same time its debt swelled to Rs 2,14,145 crore from Rs 1,96,601 crore.

Paragraph 4: "Such payments along with additional capex towards telecom will **constrain** any reduction in net borrowings until fiscal 2019," Moody's warned in a weekend note. "Accordingly, we've revised our **outlook** on RIL's long-term issuer rating to stable from positive, but the outlook on its foreign currency senior unsecured rating is maintained at stable. The outlook on Reliance Holding US is also maintained at stable," Moody's said.

Paragraph 5: The change in the outlook on the Baa2 rating reflects the increase in its business risks due to the growing digital services segment and our expectation that the high capex will keep its free cash-flow negative for at least next 18 months. The company has invested over Rs 1.4 trillion into its telecom arm Reliance Jio while it's at the fag-end of its refining and petrochemical expansion worth over Rs 1 trillion.

Paragraph 6: The company expects Jio, which reported a Rs 260 crore operational profit in the September quarter with a Rs 271 crore net loss, to turn in first set of profits in the current fiscal itself. The oil-to-telecom conglomerate reported a 12.5 per cent jump in September quarter net after refining margin **soared** to a nine-year high and mobile telephony venture earned operational profit. The Baa2 rating affirmation reflects our

expectation that RIL's credit metrics will recover over the next 12-18 months and be better positioned for the ratings as it continues to increase its earnings from the recently completed and ongoing projects in the refining and petrochemical segments.

1. Choose the word/group of words which is the MOST OPPOSITE in meaning to the word/group of words printed in bold in the passage:

Constrain

A. Excel B. Confine C. Free D. Refine E. Covet

2. Choose the word/group of words which is the MOST OPPOSITE in meaning to the word/group of words printed in bold in the passage:

Soared

A. Rise B. Sail C. Descend D. Shoot up E. Mount

3. Choose the word/group of words which is the MOST SIMILAR in meaning to the word/group of words printed in bold in the passage:

Outlook

A. Perspective B. Decision C. Rating D. Indifference E. Negligence

4. Choose the word/group of words which is the MOST SIMILAR in meaning to the word/group of words printed in bold in the passage:

Conglomerate

A. Union B. Syndicate C. Gang D. Affiliate E. Manifold

5. As per paragraph 1, what does the 'stable' rating mean?

I. An increase in debt payout and negative cashflow.

II. A decrease in debt payout and negative cashflow.

III. An increase in capex and payout of debts.

A. Only I B. Only II C. Only III D. Either I or II E. None of the above

6. What are the expectation/s from Reliance Industries, as per paragraph 6?

I. It will recover its credit position in the coming 12-18 months.

II. The earnings of RIL will show an increasing trend in the future.

III. The credit ratings will become "positive" from "stable".

A. Only I B. Only II C. Only III D. All I, II and III E. None of the above

7. Why is Reliance Industries facing a negative cash flow crisis , as per paragraph 1?

A. Due to repayment of heavy loans

- B. Due to high operating expenditures
- C. Due to less number of subscribers or consumers
- D. Due to lowering of earned revenue
- E. None of these

8. Which of the following statement/s is/are not true in the context of paragraph 4?

I. The payment of capex towards Jio will enable reduction in net borrowings by 2019.

II. The rating of RIL's long-term issuer changed to stable from positive.

III. The outlook on its foreign currency senior unsecured rating is changed to positive from stable.

- A. Only I
- B. Only I and II
- C. Only II and III
- D. Only I and III
- E. None of the above

9. What is/are the reason/s for cash outflow to remain high as per paragraph 3?

- A. Free Voice services to its telecom subscribers
- B. Increasing cost of refining the petroleum products
- C. Cheaper internet services to telecom subscribers
- D. Higher tax burden on petrochemical products
- E. Payment to the creditors for capital expenditures done previously

10. As per paragraph 5, change in Baa2 rating reflects which of the following?

- A. Decrease in business risks
- B. Business in no risk zone
- C. Increase in business risks
- D. Business with stable risks
- E. None of these

Correct Answers:

1	2	3	4	5	6	7	8	9	10
C	C	A	D	A	D	C	D	E	C

Explanations:

1.

“Constrain” means to limit or to control.

‘Excel’ means to succeed.

‘Confine’ means to restrict or restrain.

‘Free’ means without any charge.

‘Refine’ means pure.

‘Covet’ means greed of something.

Thus, out of all the given options ‘Free’ has a meaning opposite to “Constrain.”

Hence option C is correct.

2.

“Soared” means to rise or ascend.

Out of all the given options, only ‘descend’ is the opposite to soar.

‘Descend’ means to decrease or fall.

Hence option C is correct.

3.

“Outlook” means point of view.

'Perspective' also means the same.

'Decision' is to reach at some conclusion.

'Rating' to scale as per different measures.

'Indifference' is absence of interest.

'Negligence' means to ignore.

Hence option A is correct.

4.

"Conglomerate" means an associate or accord.

'Union' is a group of people having same interests.

'Syndicate' is a group of business entities.

'Gang' is a group.

'Affiliate' means an associate or an organization associated with another.

'Manifold' means many or multiple.

Hence option D is correct.

5.

As per the highlighted text in paragraph 1

Citing a likely negative free cash flow situation due to heavy debt repayments over the next 18 months, global ratings agency Moody's has lowered the credit outlook on Reliance Industries to 'stable' from 'positive' but retained the Baa2 ratings its long-term debt.

Thus it can be inferred that a stable credit rating denotes higher creditworthiness and positive cashflow due to repayment of credit.

Hence option A is correct.

6.

As per highlighted text in paragraph 6

... The Baa2 rating affirmation reflects our expectation that RIL's credit metrics will recover over the next 12-18 months and be better positioned for the ratings as it continues to increase its earnings from the recently completed and ongoing projects in the refining and petrochemical segments.

Thus, all the given statements are expected from RIL in future.

Hence option D is correct.

7.

As per the highlighted text in paragraph 1

Citing a likely negative free cash flow situation due to heavy debt repayments over the next 18 months, global ratings agency Moody's has lowered the credit outlook on Reliance Industries to 'stable' from 'positive' but retained the Baa2 ratings its long-term debt.

Thus, as per the above reference, repayment of heavy loans/ debt is the only reason for negative cashflow.

Hence option C is correct.

8.

As per the highlighted text in paragraph 4

"Such payments along with additional capex towards telecom will constrain any reduction in net borrowings until fiscal 2019," Moody's warned in a weekend note. "Accordingly, we've revised our outlook on RIL's long-term issuer rating to stable from positive, but the outlook on its foreign currency senior unsecured rating is maintained at stable.

This imply statement I to be false, as the payment of capex towards jio will limit the reduction in net borrowings, instead of allowing it.

Statement II is true, as the long term issuer rating has changed to stable form positive.

Statement III is again false , as the foreign currency senior unsecured rating are maintained at stable position, i.e. it was stable earlier also.

Thus, statements I and III are false.

Hence option D is correct.

9.

As per the highlighted text in paragraph 3

However, it noted that though the refining and petrochem capex is almost complete, the cash outflow will still remain high as payments to creditors for the past capex are made over the next 12-18 months.

Hence option E is correct.

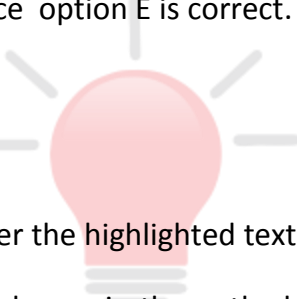
10.

As per the highlighted text in paragraph 5

The change in the outlook on the Baa2 rating reflects the increase in its business risks due to the growing digital services segment and our expectation that the high capex will keep its free cash-flow negative for at least next 18 months.

Thus, it reflects high business risks.

Hence option C is correct.



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