

CHAPTER - FOUR

CHAPTER - 4 Evaluation of the Inventory Management Practices at GPI.

GPI is an engineering unit, producing various products required by the industry. It one takes note of the sales for the last 4 years, one immediately notices the rising trend in sales. Sales were Rs. 3102 lakh in 1992, Rs. 3610 lakh (increase of 16.38%) in 1993, Rs. 4388 lakh (21.55% increase over the previous year) and Rs. 5612 lakh (27.88% increase over the 1993 sales) in 1995. The increase in sales over the four-year period was 80.92% (or an average annual increase of 20.23%).

GPI is a professionally managed company. If the inventories to sales ratios for the four years are considered, an improvement in the inventory position is immediately notices. As mentioned earlier, this is noticeable in case of raw materials, stores & spares & work-in-progress & total inventories. In case of ratio of inventory of finished products to sales, however, there is a mixed trend.

Raw Materials to sales ratio was 4.48% in 1992 which decreased to 3.43% in 1993, 2.74% in 1994 and further to 2.25% in 1995. Even with increasing trend in

sales, the amount involved in raw material inventory (i.e., absolute figures) also showed a decreasing trend upto 1994 with a marginal increase in 1995. The raw material inventory was Rs. 139 lakh in 1992, Rs. 124 lakh in 1993, Rs 119 lakh in 1994 and Rs. 127 lakh in 1995.

Stores & Spare parts to sales ratio was 2.54% in 1992 which decreased to 1.72% in 1993, 1.38% 1994 and further to 1.07% in 1995. Even with increasing trend in sales, the amount involved in stores & spare parts inventory (i.e. absolute figures) also showed a decreasing trend up to 1995. The stores and spare parts inventory was Rs. 79 lakh in 1992, Rs. 62 lakh in 1993, Rs. 60 lakh in both 1994 and 1995.

Work-in-progress to sales ratio also shows the trend similar to the raw materials to sales ratio. Upto 1995, it shows the decreasing trend. In 1992, it was 10.8% . It decreased to 8.84% in 1993, 6.11% in 1994 and further to 5.5% in 1995. Decreasing trend in this ratio is important because of difficulties in controlling the work-in-progress. In absolute terms also, the amount involved in the WIP inventory has come down for the first three years with a slight increase in the last

years. The four year figures of WIP inventory were : Rs 335 lakh (1992), Rs. 319 lakh (1993), Rs. 266 (1994) and Rs. 308 lakh (1995).

Total inventory to sales ratio also shows the similar trend. It shows the decreasing trend throughout the 4 year period. In 1992 the ratio was 20.50%. It decreased to 15.90% in 1993, 13.27% in 1994 and further to 11.89% in 1995. In absolute terms also the amount involved in the total inventory has come down for the first two years with a marginal increase in the last two years. The four year figures of total inventory were : Rs. 636 lakh (1992), Rs. 574 lakh (1993), Rs. 577 lakh (1994), & Rs. 667 lakh (1995).

Inventory Control Measures

From the above, it looks that the GPI management has paid adequate attention to both sales and the inventory items.

In respect of inventory control the GPI management has taken the following steps :

- 1) for controlling raw material inventory,
 - a) The GPI has set various levels the minimum level, maximum level, reordering level etc.

- b) Bill of Materials is prepared & followed scrupulously. It is revised, as and when required, so that it is upto date.
- c) Purchase procedure is laid down and followed very scrupulously.
- d) Vendor quality analysis is generally adopted for fabrication of 'Rocket Hardwares' at VSSC. The fabrication of Rocket component & sub-assemblies cover a wide range.
- e) Selective credit control at GPI follows ABC analysis of selective inventory control.

Senior manager, Purchase (Stores), Vice-President (Maintenance), Senior Manager (Quality control - Product), Senior Manager (Quality Control - Foundry), and Senior Manager (MIS) are the professional manager involved in controlling & managing inventory of raw materials, stores & spares and Work-in-progress.

For Stores & spare parts items, the steps outlined above are applicable in GPI. For Work-in-progress, the process-time is reduced by all the above senior officials by a consistent and concentrated approach with the specific objective of reducing inventory without

affecting quality and quantity of the products manufactured. The GPI management seems to have done it effectively.

The GPI management has been, therefore, successful in controlling & managing the inventory efficiently & effectively.