

Chapter-II

Review of Literature

CHAPTER II

REVIEW OF LITRATURE

2.1 INTRODUCTION:

The main purpose of this chapter is to present review of literature relating to the research study. This topic covers the review of literature and conceptual framework of inventory management. This review of literature collected through books, articles, research paper, some research reports, M.Phil dissertations and Ph.D thesis etc.

2.1.1 Manepatil U R. (1991) – has studied inventory management of selected industrial units in Miraj MIDC. He analyzed on purchasing policies, various technique adopted for controlling the inventories in the industry units under the study. The present study covers the whole area of industry units. He suggested that the proper profit and cost production budget maintained, using various inventory control techniques, improve new CNC machine technology, and adopting centralized purchasing policy by the all industry units in Miraj MIDC.

2.1.2 Khot B.A. (1992) – He has studied present position of small, medium and large scale industries unites and ascertain the problems faced by these unites in day-to-day functioning. He find out the causes of problem faced by these units are 1) low quality 2) lack production planning and control 3) poor quality of raw material 4) high rate of labour absenteeism. He suggested that the 1) use of quality raw material 2) accuracy production planning 3) provide time to time labour payment and facilities 4) training facility provide to labour. He conclude that the grove problems faced by the industry, which has maintained by researcher, will be useful for overcoming the problems and be helpful in rapid growth of industries in the district.

2.1.3 Deuskar S.A. (1994) – He focused on financial performance in some selected large fertilizer manufacturing units in the country. The study has been emphasized on the financial performance, trend analysis and turnover

position of industries. He studies the following ratio 1) turnover ratio 2) profitability ratio 3) working capital ratio. He found that the only few industries are adopted and managed inventory mgt, these industries are sufficient position, but any other industries not properly managed inventory mgt. He concludes that the fertilizer industries position in India is better but, industry should be developed and adopt new mgt system, inventory control and improve profitability.

2.1.4 Mahind B.S. (1995) – He has analyzed inventory management Ghatge-Patil Industries with inventory technique elaborately. He reviewed the inventory mgt of GPI as well as R.M position, working capital position, turnover ratios of GPI in the study area. He find out the inventory position of GPI are good and satisfactory. He conclude that the no shortage of raw material, stoppage of the production, and working capital is shows the good position of GPI, and it is also helpful in day to day operations of the industry.

2.1.5 Kharche N.S. (1995) – he has analyzed the area wise and customer wise output of SSIs in the selected study area. He reviewed the sources of finance available to SSIs, cost structure in different types of SSIs, and to examine the relationship of cost with the productivity in the study area. He find out the SSIs on the study area mostly sold their products to the large industries. He has suggested development of new products, reducing the product cost and increasing the overall profitability reduction product cost and improves productivity.

2.1.6 Patil S.K. (1996) – In this research study he focused on the material mgt. in Tungabhadra farmers' co-operative spinning mills. He analyzed that the turnover ratios, inventory techniques. He observed that the lack of coordination between drawing department and manufacturing department, no proper communication in organization and labour, but inventory position is good. He suggested that the close coordination among the drawing dept and manufacturing dept, face to face communication high level mgt and low level mgt, improving supplier relationship, increasing sales, he concludes that these suggestions would provide the requisite policy framework for effective inventory mgt in this mill.

2.1.7 Torgal B.B. (1999) – In this study the main objective is to critically evaluate the core management, functional management, production management practices of the sampled units. She is used different 100 industry sampling units, those units passing 2 criteria 1) employee strength above 50 persons and 2) annual turnover above 1 crore as on 31-3-1998. She found that the few units are good overall mgt position, and on other units poor mgt position. She hints to the , SSI units in the study area largely discharge these financial & core functions as these suit them and adopt the modern financial technique. She concludes that the SSI is available resources in finally for the more effective work in the industries, they adopt or available resources of SSIs, all mgt practices of these units adequately serve their individual purposes.

2.1.8 Deshmukh U.M. (1999) - He focused on comparatively material management practices of engineering and sugar units in the study area. He observed that the 1) majority of the units have adopted centralized organizational structure, and issuing unscientific methods of issuing materials 2) majority of units do not adopt proper rate selection method, and scientific inventory control techniques. He suggested that 1) advance improvement material planning and programming 2) they should check and mistakes inspect of their work pointed 3) seek improvement in transportation 4) adopt scientific techniques i.e. – variety reduction, line of balance, just-in-time.

2.1.9 Laddha R.L (2004) – he has studied the overall causes of industrial sickness pertaining of Solapur district. The real causes of sickness are 1) immature mgt 2) labour and staff problems 3) absence of experience 4) financial problem 5) bad layout 6) financial, marketing, raw material, and machinery problems 7) increased scrap 8) unscientific material handling. He suggests that the soft and easy loans should be made available to sick units; advice to recruit only well-educated working staff, dependable public transport system for entrepreneurs. He concludes that the in entire Solapur district there was an urgency of successful small engineering unit to expand Solapur economy by providing a proper employment of capital and labour.

2.1.10 Rajyalakshimi N. (2004) - The Study based on primary data collected by using structured schedule through personal inventories a sample of 200 SSI units has been selected for the study. He found that those chemical units were more capital intensive, and it was low in food and agro unit's productivity. The study concluded that success in small industry will be best achieved if the productivity culture will be clearly understood by the entire employee.

2.1.11 Boute, Lambrech, lambrenchts, Peter (2004) – the aim of this paper is to investigate the level of inventories held by Belgian companies at one moment in time namely may 2004. They examine differences in inventory ratio between manufacturing industry sectors as well as between wholesale and retail. He finds out the inventory ratio to be significantly higher in retail than in wholesale. Furthermore they examine the financial impact of inventories in the manufacturing industry.

2.1.12 Eckert (2007): This study examines inventory management and role it plays in improving customer satisfaction. It looks at how food companies have been under pressure to streamline their inventory systems, and the consequences of such actions. He found that many food companies are, therefore, looking at various inventory management system as they belief this will have a positive effects on the satisfaction of their customers. He concludes that the small business is adopted to keep the inventory management system as they saw how it improved their customer services.

2.1.13 Ganesan & Dhanapal (2009): this paper presents proactive aspects and relationship of the production with raw material consumption and yield, Cobb- Douglas production function has been used. He find out the Cobb- Douglas production function shows the relationship between production per spindle shift and various component costs per spindle shifts. He suggested for improving productivity and profitability. He concluded that one makes drill down approach to increases the profitability as well as the productivity by ascertaining the association successfully.

2.1.14 Ogbadu (2009): The paper focuses on how business firm can attain profitability through effective management of materials. The objective of this

paper is to identify problems of material management, in which if corrected can result in profitability. He find out the 1) there is need to recognize the material mgt function 2) there is positive & significant relationship between material mgt problems & the frequent breakdown of the plant. He conclude that the it becomes very necessary to re-organize the materials mgt department establish good relationship with suppliers of spare parts in order to minimize losses arising from frequent breakdown and improve profitability.

2.1.15 Adeyemi & Salami (2010) – this paper analyze the inventory model, EOQ and inventory level of manufacturing industry. He found that the industry does not properly manage of raw material, production process, labour problems, and any other inventory techniques. He suggested that the improving R.M and production process, to solve labour problems and close coordination since all departments connected, using different inventory techniques. He concludes that the efficient inventory policy is always on important requirement for the successful mgt of manufacturing enterprises.

2.1.16 Saikia H. (2012) – In this paper the “financial performance of SSIs” was studied. The study includes only 220 units in Assam. This paper includes input and output performance of the units, liquidity position of the units, current ratios, liquidity index ratio. This paper finally concludes that a policy regime correcting the structural imbalance present in Assam can provide a better environment for development of the small scale industries in Assam.

2.1.17 Singh, Varma, Anjum (2012) – this paper analyzed the performance of SSIs in India and focus on policy changes which have opened opportunities for this sector. He find out the SSI sector has good progress as far as the number of SSI units concerned. He suggested that the training and development provisions should be followed by the SSI units for proper functioning. To generate more employment opportunities special attention should be given on the development of SSI by the govt. special zones and clusters should be development to promote SSI and financial and technique assistance should be arranged for smooth function of SSI.

2.1.18 Soni (2012) – She focused on inventory management of engineering goods industry in Punjab. She has used turnover ratios, working capital mgt. and inventory control. After the study she found that selected industry do not pay much attention to modern techniques of inventory, i.e. EOQ, safety stock. She suggested that to solve the problem of shortage of inventory as taking loan from institution, retained earnings, placing order in time, planned reorder level and maintained safety stock.

2.1.19 Khu, Chen, Hung, Peng (2012) – In this paper they focuses on the production technique for a small manufacturing company X by using ABC analysis. They analyzed the regression technique, R.M inventory model for the important multiple products etc. they find out the regression model evaluate the goodness of fitting to the selected important multiple products, R.M shortage problem. They also recommended 1) establishing as module to integrate the ERP system (Enterprise Resources Planning) 2) establishing an EOQ model for the important multiple products and reduce the R.M shortage problem in the inventory system.

2.1.20 Monisola (2013) – He examined inventory mgt problems and their impact on the performance of small and medium scale manufacturing orgns. He analyzes the efficiency & profitability of various manufacturing orgns and use of EOQ model. He found that the non-use of perpetual inventory method, lack of structured inventory process valuation and processing in arriving at sound decisions in SMEs is generally very low. He suggested that the need for a computerized system in order to facilitate the perpetual inventory approach.

2.1.21 Kumar & Anas (2013) – has studied inventory mgt in Scooters India ltd. He focused on determine whether inventory mgt in scooters India ltd, or not can be evaluated and understood using ABC analysis in inventory mgt. He find out company have problems in procurement and handling of R.M not for finished products. He suggest that develops an approach if adopt for by company, would result in more efficient utilization of financial resources for finished inventories, to improve certain things in the company inventory policy.

2.1.22 Kennedy, Margaret and Walter (2013): In this paper focuses on the effect of inventory control system on operational performance tea processing firms with reference Gianchore tea factory. Objectives of the study were to: determine the effect of material requirement planning on operational performance. They study also found out proper operational performance in tea factories leads to increased level of productivity, level of output, competitive advantage and cost efficiency. They conclude tea processing firms have adopted inventory control system in order to improve their operations.

2.1.23 Lobo, Kumar & Ravikumar (2013): this paper analyzes the FSN, ABC, VED, ABC-VED matrix analysis. They find out the 1) overall inventory was reduced from 12.7 days to 11.8 days 2) ABC-VED matrix accurately identified three classes of parts, which requirement different leverage of managerial control. They suggested that the 1) improve the supplied part quality 2) accurate physical inventory stock in the system 3) uses of SAP-ERP software for integrating the production and Inventory visibility to be improved – FIFO to be implemented. They conclude that the Inventory optimisation is sought for having a better managerial control on parts based on consumption value and priority.

2.1.24 Madishetti & Kibona (2013): This paper is to examine the relationship between inventory conversion period and SMEs profitability and determine the impact of inventory mgt on SMEs profitability. The result indicates that there is a significant negative liner relationship between inventory conversion period and profitability. They suggest that 1) adopt inventory mgt tools like inventory ratios and JCP 2) improve the financial performance. They conclude that the Small Medium-Sized Enterprises (SMEs) are believed to provide a momentum to the economic progress of developing countries and its importance is gaining widespread recognition.

2.1.25 Agrawal & Goel (2014) – this paper focused on the impact of globalization on Indian SSIs, and also focuses on the performance of SSIs before and after globalization. In absolute terms it depicted that globalization made a positive impact on the growth of SSIs in Indian economy. They

suggest that the govt is doing various efforts to make things simple, and provide financial support to interested individuals. Their opinion that if the proper and adequate degree of globalization can prove boost to SSIs growth of Indian economy.

2.1.26 Sohani & Pagare (2014) – in this paper they focused on product quality analysis, (P.Q analysis) They study the consumption and accounting for material scientifically, short term and long term materials planning. They found that the company facing lot of problems like stoppage material, improper dispatch of material, not following any inventory mgt, supply chain mgt, no coordination between inters department and higher level mgt to lower level mgt. They suggests that the improvement of plant layout and machine sequencing, higher level staff discuss with lower level employees, to share their problem, coordination with inter departments. There should coordination with production department their opinion that their contributions were beneficial for the industry.

2.1.27 Lenin, Krishnaraj, Narendra Prasad, Prasath Kumar (2014): in the study they main objectives are to identify the variables influencing material procurement and inventory which affects the construction time and causes cost overruns. The paper also aims at identifying the relative importance of the focuses and to rank the factors according to their significance. They find out the ranking factors shows that the top five major's causes of cost overruns are: design issues, market condition, store issues, contractor issues and external issues. They also recommended are given for reducing the material mismanagement in the construction industry.

2.1.28 Rambabu & Malyadri (2014): in this paper focuses on inventory management at AREL. In this paper includes turnover ratios, ABC analysis, EOQ etc. he found that the AREL is concerned, a paper maintained of EOQ, availability of stocks, procurement of raw material, the company has concentrate more in the inventory mgt, that the production may increase and the level of shortage decreases and the products as made reality available to the customers. They conclude that the company by following the inventory

management technique like Just in Time (JIT), reduce its cost & supplies to finish the goods at reasonable prices to the customer.

2.2 CONCLUSION:

After the review of earlier studies on small scale industries the present researcher has found that they are focused on inventory management in selected silver products, inventory management in textile mills, productivity awareness about Small Scale Industry, Performance analysis Selected Small Scale Industries, in India, Performance in Material Management, Controlling Cost, Costing Technique, Financial performance in selected units in Fertilizer industry, Material Management in Co-Operative Spinning Mills, Problem and Prospectus of Small Scale Industry in India, Cause and Consequences of Industrial sickness in Small Scale industry. With observing the research gap the researcher has found gap in the study of inventory management performance in small scale industries. So the researcher has selected the research topic "Inventory Management Performance in Small Scale Industries: A Comparative Study of Thorat Industry and Yash Industry in Palus.

THEORETICAL BACKGROUND

2.3 INTRODUCTION:

Inventory management is one of the areas covered by the whole process of management. For the balanced growth and efficient running of the enterprise, it is necessary that inventory cost, inventory supply and inventory utilization are so controlled that they led to 1) the maximization of the production 2) the reduction in the cost of production and distribution 3) the maximization of margin profit. Inventory management help in reducing material cost prevailing large amount of capital being locked up for, a larger period and improving the capital turnover ratio. Inventory management is a service function affecting the flow of material in a manner in which it helps in conserving the material cost. Best utilization of materials and maintain the quality of both incoming and outgoing materials.

Inventories constitute one of the most important elements of any system of dealing with supply, manufacturing and distribution of goods and services. The concept of inventory is very old, but it comes in light when F.W Harries published his work on classical order size.

2.3.1 Definition of Inventory:

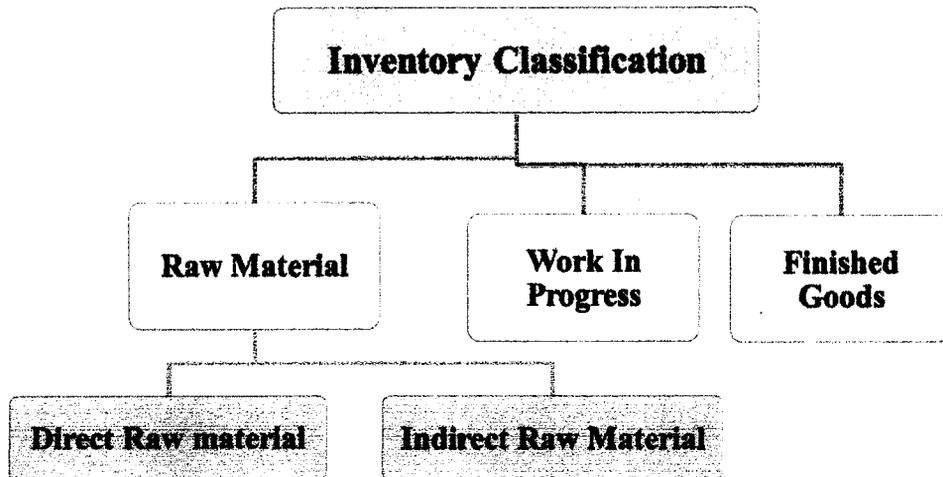
“Inventory is generally defined as stock at a particular location”.

1) “Part of enterprises working assets consisting or raw materials to be used in the manufacture of product goods in process of manufacturing and finished goods ready for delivery to customers.”(Gupta & Abrol, 1989)

2) “Inventory is defined as the sum of the value of raw material, fuels, lubricants, spare parts, maintenance, consumables, semi-processed materials and finished goods stock at any given point of time.”(Crispin, 1976)

2.3.2 Classification of Inventories:

Figure – 1



Following classification of inventory may be done.

A) Raw Material:

Raw material is those basic input materials that are converted into finished goods product through manufacturing process. Raw material inventories are therefore future production. Raw material is two types

- a) Direct raw material
- b) Indirect raw material.

a) Direct Raw Material: direct raw material is part of the finished products, they includes all materials purchased for a particular job, or procured to be used in a particular production order, all material passing from one process to another etc.

b) Indirect Raw Material: indirect raw material is those which cannot be identified directly as a part of finished product, but are required for the purpose of production.

B) Work In Progress:

Work-in-progress inventories are semi-manufactured products. They present products that need more work before they become finished products for sale.

Work-in-Progress inventory is built up because of the production cycle. Production cycle is the time span between the introduction or raw material into production and the emergence of finished product at the completion of

production cycle. Till the production cycle completes, the stock of work-in-progress has to be maintained.

C) Finished Goods:

Finished goods inventories are those completely manufacturing products, which are ready for sale. They are the final output of the production process in a manufacturing organization. In case of wholesalers and retailers, they are finished generally referred to as merchandise inventory.

The stock of goods has to be held because production and sales are not instantaneous. A concern cannot produce immediately, when the goods are demanded by customers. Therefore, to supply finished goods on a regular basis, their stock has to be maintained for abrupt or spontaneous demands from customers.

2.4 INVENTORY MANAGEMENT:

Inventory management may be defined as the sum total of those activities, which are necessary for the acquisition storage. Sale and disposal or use of inventory covers the stock of raw material, work in progress, finished goods and components. The investment in inventory is very high in most of the under taking engaged in manufacturing, wholesale and retail tread.

2.4.1 Definition of Inventory Management:

1) "Inventory management is planning and devising procedures to maintain an optimum level of raw material, work in progress, finished goods consumables and stores."(Starr & Miller, 1962)

2) "The inventory management is also called inventory, which is defined as a system of internal check or control. Inventory is part of working capital."(Sharma & Gupta,)

Effective inventory management plays a critical role in the smooth and efficient running of any business. Reducing excess inventory and investing in the right inventories lead to improved customer service, increased inventory turnover, reduced costs and increased profitability. It also casts money to store track and insure inventory. The inventory management is important for good plant operations.

2.4.2 Objective of the Inventory Control:

- 1) To ensure adequate supply of products to customers and avoid shortages as far as possible.
- 2) To make sure that the financial investment in inventories is minimum.
- 3) To efficient purchasing, storing, consumption and accounting for materials is an objectives.
- 4) To maintain timely record of inventories of all the times to maintain the stock within the desired limits.
- 5) To ensure timely action for replenishment.
- 6) To provide a reserve stock for variable in lead of delivery of materials.
- 7) To provide a scientific base for both short term and long term planning of materials.
- 8) To avoid both overstocking and under stoking of inventory.

2.4.3 Process of Inventory Management:

- 1) “The efficient management of inventory stock by accurately forecasting or calculating future demands for the various inventories items that are necessary to run business.
- 2) This is necessary because for most business of leads times for purchasing, manufacturing, distribution, and transpiration exceed the lead time may have available to meet customer needs.
- 3) For manufacturing business, the process may start with forecasting demands of finished products and using set of technique collectively called manufacturing resources planning. To calculate requirements for inventory items needed to support the manufacturing of finished products.”(Narayan & Subramanian, 2008)

Inventory is used to denote the stock on hand at a particular time comprising raw materials, goods in progress of manufacture and finished products. Inventory has a primary significance in accounting purpose for ascertaining

the correct income at particular period. Inventory plays a very important part in the determination of the profits of a business.

2.5 DIFFERENT TECHNIQUES OF INVENTORY ANALYSIS:

In any organization depending on the types of business, inventory is maintained. When the number of item in inventory is large, then large amount of money is needed to create such inventory, it becomes the concern of the management to have proper control over its ordering, procurement maintained and consumption. The control can be for order quality and order frequency. Management of today understands that short of inventory can result in stock out situation causing stoppage of production and on the country, holding very high inventory can result in increased carrying cost. Therefore, optimization of inventory necessitates that inventories should neither be too high nor too low” (Das, 2013).

The different techniques of inventory management are as follows.

A) ABC ANALYSIS TECHNIQUE:

The ABC analysis is also called the PARETO analysis. It was developed by the Italian economist Wilfred Pareto. The classification of existing inventory is based on annual consumption and annual value of the items. Then obtained the quantity of inventory items consumed during the year and multiply it by unit cost to obtain annual uses cost. ABC analysis trends to separate all items consumption value.

1) Category A – in A class item – 10% of number of items account for 70% of annual consumption value.

2) Category B – in B class item – 20% of the number for 20% of annual consumption value.

3) Category C – in C class items – 70% number by 10% of annual consumption value.

The high value items are classified as ‘A’ items and would be under the tightest control. ‘B’ items represent value of moderate importance and require reasonable attention of management. ‘C’ items represent relatively least value & would be under simple control.

B) VED ANALYSIS T TECHNIQUE:

The VED analysis is used generally for spare parts. ABC analysis may not be properly used for spare parts, the demand for spare parts upon the performance of the plant and machinery, spare parts are classified as

- 1) Vital items 'V'
- 2) Essential items 'E'
- 3) Desirable items 'D'.

1) 'V' stands for 'Vital items' when go out stock or when not readily available, completely bring the production to a halt.

2) 'E' stands for 'Essential items', without which temporary losses of production or dislocation of production work occurs.

3) 'D' stands for 'Desirable items all other items which are necessary but not cause any immediate effect on production, it is mainly used in spare part of inventory. The classification of spare parts under three categories is an important decision. A wrong classification of any spare will create difficulties for production departments. The classification of spare part should be left to the technical staff, because they know the need urgency and use of these spares (Gopalkrishnan & Sandilya, 1981)

C) ABC & VED MATRIX ANALYSIS:

This type of classification helps to management to decide the materials policy and what service levels are expected to see that no difficulty is faced. An item belongs to both V class and A class is costlier (more annual consumption) at the sometime of higher critically the management. The services levels to be maintained are shown in the matrix for various combinations. (Junita & Sari, 2012)

- I) AV+BV+CV+AE+AD
- II) BE+CE+BD
- III) CD

Class I is the highest priority group, needing greatest attention. The management of class I attention on should be devoted by top management would help in keeping a check on the annual budget and their availability. Moderate attention should be devoted by middle level management for class II, and the loose attention is devoted by lower level management for class III.

D) INVENTORY TURNOVER RATIOS:

1) Inventory Turnover Ratio:

This ratio includes the number of times the inventory is replaced during the financial year. It reflects the degree of liquidity of the firm, and it show how effectively the executive in charge of maintain the inventory level performs the task. Generally, high inventory turnover ratio is indicative of good inventory management. A low inventory turnover ratio signifies over investment in inventory or excessive inventory levels, warranted by production and sales activities or slow moving, obsolete inventory.

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Avrage Inventory}}$$

The inventory turnover ratios including the inventory holding day's ratio are as follows.

2) Inventory Holding Day's Ratio:

This ratio indicates the length of time required for the conversation of investment in inventors to cash of firm. Lower the ratio better the inventory management and vice-versa. High ratio indicates that the management is taking more time in making the funds idle, and it involve more carrying cost for holding such inventories.

$$\text{Inventory Holding Day's Ratio} = \frac{365}{\text{Inventory Turnover Ratio}}$$

3) Raw Material Turnover Ratio:

A raw material turnover ratio indicates the number of items; raw material inventory was used on the average during the period.

$$\text{Raw Material Turnover Ratio} = \frac{\text{Cost of R. M Consumed}}{\text{Average Stock of R. M}}$$

Therefore, higher RMTR also indicates good position raw material of industry.

4) Raw Material holding Day's Ratio:

The raw material turnover ratios including the raw material holding day's ratio higher ratio of RMHDR is a not good health of the industries. This ratio has been computed by dividing the total days by the RMTR.

$$\text{Raw Material Holding Days} = \frac{365}{\text{R. M Turnover Ratio}}$$

5) Work In Progress Turnover Ratio:

In process includes the set at large of unfinished items for products in a production process. These items are not yet completed, but either just being fabricated or waiting in a queue for further processing or in a buffer shortage. WIP inventory consists of items that have started the production process, but are not finished saleable goods.

$$\text{WIP Turnover Ratio} = \frac{\text{Factory Cost}}{\text{Average Stock of WIP}}$$

Higher WIPTR it shows the better position of industry, and low WIPTR indicates the poor performance of the industry.

6) Work in Progress Holding Day's Ratio:

This ratio has been computed by dividing the total days by the WIPTR in the industry.

$$\text{Work in Progress Holding Days} = \frac{365}{\text{WIP Turnover Ratio}}$$

7) Inventory to Sales Ratio:

The inventory sales ratio measures the percentage of inventories, the company currently has on hand to support the current amount of sales viewing this ratio over several periods reveals the important aspects of the company ability to manage inventory, while attempting to increase sales.

$$\text{Inventory to Sales Ratio} = \frac{\text{Inventories}}{\text{Net Sales}}$$

8) Inventories to Total Current Assets:

This ratio indicates the proportions of inventories invested out of total current asset of the company. Since the inventory is less liquid compared to other current assets of a company, a high ratio indicates less liquidity position of the company.

$$\text{Inventory to Total Current Assets} = \frac{\text{Inventory}}{\text{Total Current Assets}}$$

9) Current Liabilities to Inventory Ratio:

Ratio this is low usually indicates that, a firm will be able to meet short-term obligations and a high ratio may be cause for concern and single a potential cash shortage. The current liability to inventory ratio indicates the size of firm's current liability relative to its inventory.

$$\text{Current Liabilities to Inventory Ratio} = \frac{\text{Current Liabilities}}{\text{Inventory}}$$

10) Inventory to Net Working Capital Ratio:

The ratio of inventory to net working capital shows the relationship between investment made in inventory and total net investment in working capital. Every business organization should have sufficient working capital for day to day running of the business. Inventory is an important part of working capital because of the direct impact, which it has upon the organization's profits. The value of inventory is susceptible to changing price level, fluctuations in business activity, variations in consumer demand, obsolescence and other unpredictable factors that enter into the determination of marketing conditions. Working capital, therefore, should be sufficient to provide a cover for possible losses in inventory values. A lower ratio will indicate a sound working capital position. It also indicates whether a business is growing too large as compared to its financial position.

$$\text{Inventory to Net Working Capital Ratio} = \frac{\text{Inventory}}{\text{Net Working Capital}}$$

2.6 CONCLUSION:

The recent development in performance and inventory management in small scale industry have been emphasized the need for revitalizing the administration management of SSIs. The good inventory management also

better position of the industries. Inventory management related to manufacturing industry there is direct relationship between SSIs. The inventory management mainly depending on material spares sprats of the SSIs.

The inventory management has to playing important role in pricing of raw material and valuation of stock. Inventory managements is helpful for keeping a carrying cost ordering cost and even cost of manufacturing in minimum level. So that proper way of inventory management is essential for all kind of inventory and all kind of organization.

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