

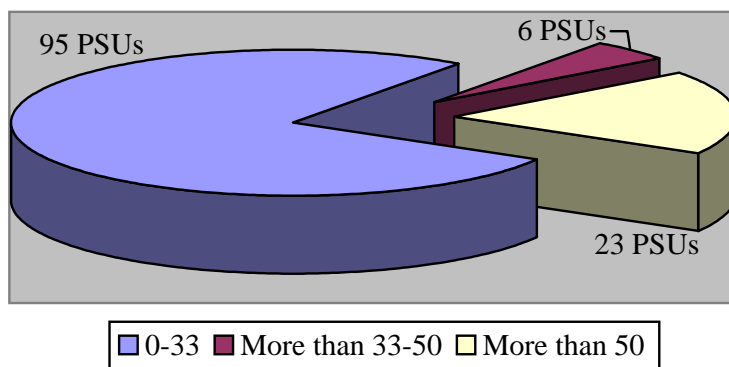
CHAPTER 3 INVENTORY MANAGEMENT

3.1 Management of inventory consisting of raw materials, stores and spares[®] and finished goods is a vital area of concern for any public enterprise, especially in the case of manufacturing industries. Excess inventory holding leads to excessive carrying cost on account of interest, storage and handling charges, insurance, record keeping, inspection and risk of deterioration in quality and thus adversely affects the profitability of the organisation. Even though the optimum level of inventory varies from industry to industry, it is generally considered that the value of inventory as a percentage of annual consumption should not exceed 33 per cent and the value of finished goods to net sales should be about one month's sale (i.e., 8.33 per cent).

3.2 Details of value of inventories (e.g., raw materials, stores and spares) other than finished goods at the end of the year as a percentage of consumption during the year, the value of finished goods at the end of the year as a percentage of net sales during the year and the net sales as a percentage of capital employed in respect of the PSUs are placed in Appendix - X. The Appendix also indicates the sales to the Government Departments and PSUs as a percentage of net sales and the value of sundry debtors as a percentage to net sales. A frequency table indicating the holding of inventory at various levels (in percentage) out of 173 PSUs considered[≈] is given below:

Ranges of Percentage	No. of PSUs with respect to inventory of Raw Materials to annual consumption	No. of PSUs with respect to Inventory of Stores and Spares to annual Consumption
0-33	95	23
More than 33-50	6	12
More than 50	23	117

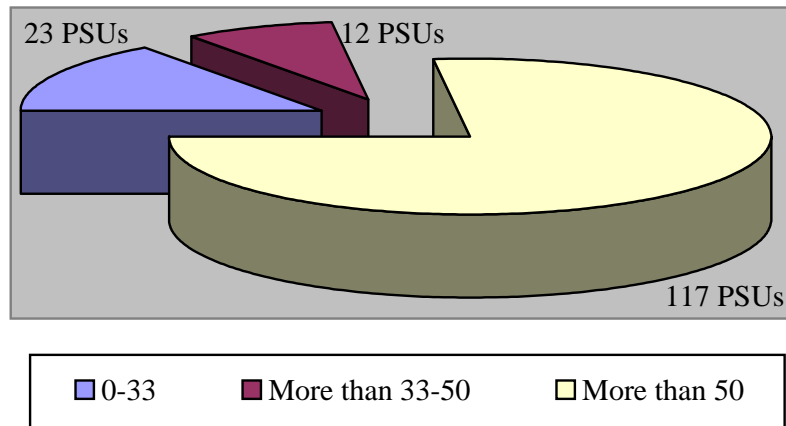
Chart 7
Percentage of inventory of Raw Material to consumption



[®] The value of spares discussed in this Chapter also includes standby equipment and servicing equipment. According to revised Accounting Standard – 2 of the Institute of Chartered Accountants of India, these need to be capitalised.

[≈] 49 PSUs did not have stock of raw material and 21 PSUs did not have stores and spares.

Chart 8
Percentage of inventory of Stores & Spares to consumption



3.3 In 29 PSUs, the inventory of raw material in stock to annual consumption exceeded 33 per cent and in 23 of these PSUs it exceeded 50 per cent. Similarly, in 129 PSUs, the inventory of stores and spares in stock to annual consumption exceeded 33 per cent and in 117 of these PSUs it exceeded 50 per cent. This shows that substantial funds were blocked in working capital.

3.4 The percentage of finished goods/stock in trade to sales was higher than 8.33 per cent (i.e. one month's sales) in 42[∞] PSUs. The percentage of finished goods/ stock in trade to sales was particularly high in sectors such as Agro based industries, Industrial Development, Textiles and Trading & Marketing.

3.5 The top ten PSUs having finished goods stock of value of more than Rs.30 crore and representing more than one month's sales are given in the following table:

1	The Cotton Corporation of India Limited
2	Numaligarh Refinery Limited
3	Central Coalfields Limited
4	Bharat Coking Coal Limited
5	Bharat Earth Movers Limited
6	Indian Iron and Steel Company Limited
7	ITI Limited
8	Rashtriya Chemicals and Fertilizers Limited
9	Hindustan Copper Limited
10	Coal India Limited

[∞] excluding PSUs which are defunct / under liquidation

3.6 The top ten PSUs[®] where the value of raw material in stock is more than Rs. 10 crore and represents four months' consumption are given in the following table:

1	Hindustan Aeronautics Limited
2	Mazagon Dock Limited
3	Garden Reach Ship Builders and Engineers Limited
4	Bharat Dynamics Limited
5	Cochin Shipyard Limited
6	Hindustan Shipyard Limited
7	Goa Shipyard Limited
8	Mishra Dhatu Nigam Limited
9	Bharat Heavy Plates and Vessels Limited
10	Cement Corporation of India Limited

3.7 The PSUs where the value of stores and spares in stock is more than six months' consumption (whose annual consumption of stores and spares is more than Rs.100 crore) are given in the following table:

1	Oil and Natural Gas Corporation Limited
2	Indian Oil Corporation Limited
3	Gas Authority of India Limited
4	Air India Limited
5	Neyveli Lignite Corporation Limited
6	Rashtriya Ispat Nigam Limited
7	Oil India Limited
8	Mahanadhi Coalfields Limited

3.8 In 120 PSUs, the value of surplus, obsolete and non-moving inventory as on 31 March 2005 was Rs.676.72 crore (37 PSUs), Rs.512.07 crore (51 PSUs) and Rs.1519.57 crore (91 PSUs) respectively making a total of Rs.2708.36 crore. This shows blocking up of working capital with its consequential detrimental effect on operational efficiency. Of these, the value of surplus/obsolete and/or non moving stock was more than Rs.50 crore in 12 PSUs, as detailed below:

Sl.No	Name of the PSU	(Rs. in crore)	
		Obsolete/ Surplus	Non-Moving
1	Gas Authority of India Limited	455.75	0.00
2	Steel Authority of India Limited	74.31	158.61
3	Oil and Natural Gas Corporation Limited	0.72	196.47
4	Indian Oil Corporation Limited	171.75	0.00
5	Bharat Sanchar Nigam Limited	120.12	0.00
6	Oil India Limited	0.00	100.47
7	I T I Limited	19.68	77.01
8	Bharat Electronics Limited	3.89	75.30
9	Rashtriya Ispat Nigam Limited	11.18	58.18
10	Neyveli Lignite Corporation Limited	9.00	57.76

[®] excluding PSUs which are defunct / under liquidation

11	National Fertilizers Limited	8.42	59.63
12	Bharat Coking Coal Limited	0.00	57.63
	Total	874.82	841.06