Analysis of Inventory Management of Dabur India Limited

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Received 15.05.2018 received in revised form 17.08.2018, accepted 19.08.2018

Abstract:Inventory holds a substantial part of funds engaged as working capital of any manufacturing organization. As a major component of total current assets, inventory gains importance due to the fact that it is a non-cash item and it takes considerable amount of time to get converted into finished goods and ultimately into cash. This duration of conversion of cash into inventory and in turn into finished goods to cash is considerably long, as a component of total operating cycle. It is also noticeable that inventory also needs to be taken care from the viewpoint of the fact that it is carried physically, unlike cash and receivables which may also be carried digitally or virtually. Inventory may also get destroyed by fire, theft, pilferage, aging, and loss by any other reason etc. Inventory is the basic component of any final product. Thus, it also consumes major portion of the cost incurred during the transformation process. Importance of efficient management of inventory gains significance due to all these reasons. Dabur India Limited is the best Ayurvedic and Natural Health Care Company. Looking at its wide range of inventory items with differentiable life spans,it would be interesting to analyze the inventory management of Dabur India Limited.

Keywords: Inventory, inventory management, current assets.

1 INTRODUCTION

Inventory, in simple words is defined as collection of items in an organization, stocked for the purpose of maintaining continuity in various operational processes of business. Inventory of raw material is managed with an objective of continuing the production processes smoothly, while inventory of finished goods is carried with the aim of avoiding loss of sale. Bulk purchase of inventory items of raw material also aids in negotiation of prices. It further helps in getting quantity discounts and other types of concessions like cash discount etc. Inventory holds major portion of total current assets in manufacturing organizations. Service industry require less inventory and whatever inventory it holds, is in the form of tools or other small deliverables. There are pure service providing industries which have highest involvement of human beings who deliver the services and these require least amount of inventory and also total current assets. Most of the business transactions are on cash basis in such business organizations. On the other hand, there are large manufacturing organizations which carry ‘n’ number of items as inventory. Even the quantities of such items are also substantially large. These larger quantities engage considerable funds of the organization invested as total current assets. It is the cost of funds tied up as current assets that makes the inventory management important from the viewpoint of controlling costs and hence, increasing overall profitability of the firm.

2 OBJECTIVES OF THE STUDY

Deciding the research objectives is actually the first step in any research design. Objectives are the ultimate achievable of any research and are the guiding force for the research.[1] The present study is undertaken with the following objectives:

i. To understand objectives of inventory management.
ii. To calculate inventory management ratios of Dabur India Limited.
iii. To analyze the above calculated ratios.

3 METHODOLOGY

Methodology adopted during the present study is very simple. Inventory management ratios of Dabur India Limited are calculated and analyzed, in line with the objectives of the present study. The results are discussed and conclusions are drawn, on the basis of the findings of the present study. Time span considered for the data collection is eight financial years, from 2009-10 to 2016-17. Data is collected from the secondary sources i. e. published audited financial statements of Dabur India Limited. The collected data has been represented in the table. There is nothing like statistical sophistication in tabulation. Tabulation is categorization of data in several classes. Tables help the researchers as tables represent overall view of the findings, are helpful in identifying trends and also that tables display relationships in different variables. [2]

3.1 Inventory, its management and inventory management ratios

Inventory is another significantly visible tangible asset of any manufacturing organization. Inventory ties up money. Inventory is the stock of goods required to do business. [3] Inventories are carried over with transaction, precautionary and speculative motives. Inventory helps in uninterrupted production. It also safeguards against any changes in demand and supply of the inventoried items. It also helps in the situation

Table:1 : Calculation of inventory management ratios

Particulars / Year	2017	2016	2015	2014	2013	2012	2011	2010	Average
Sales	7701.44	7868.77	7885.54	7113.53	6199.76	5305.42	3280.61	2879.54	
Inventories	1106.71	1096.5	973.27	972.51	844.44	823.92	460.59	298.44	
Total Current Assets	3116.47	3215.66	2771.86	2988.14	2689.07	2315.3	1397.32	917.95	
Inventory Turnover Ratio	6.96	7.18	8.10	7.31	7.34	6.44	7.12	9.65	7.51
Inventory to Total Current Assets Ratio	35.51	34.10	35.11	32.55	31.40	35.59	32.96	32.51	33.72

Source: Annual Reports of Dabur India Limited for the FY 2009-10 to 2016-17

of price hikes. [4] Inventory is categorized as raw material,work-in-process and finished goods inventory and while calculating inventory turnover ratios, the total of all three types of inventories is considered. The levels of these three kinds of inventories depend on the size and nature of the business. [5] Longer operating cycle would mean larger work-in-process inventories. There are basically three types of costs involved with inventory. First one is the cost of inventory i. e. the amount paid to acquire the inventory units. Second one is the carrying cost of inventory i. e. the cost of taking care of the stocks that are piled up for future use. Third one is the cost incurred while ordering the inventory items. The objective of inventory management is to keep the total of all these three types of cost to its minimum.

Efficient inventory management focuses on minimum investment in inventory and minimum expense to carry the inventory. Poor inventory management is reflected in loss of production and loss of sales. Poor inventory management further increases total cost, as many discounts and concessions are not obtained by the organization. Timely procurement of inventory items not only saves the carrying cost but also reduces stock-out cost.

Ratio is nothing but a means of highlighting relationship between figures drawn from financial statements, in arithmetical terms. Ratio analysis is the process of determining and presenting the relationship of items or group of items included in the financial statements. [6] Ratios are classified as structural and functional. Inventory ratios fall into the category of activity or efficiency ratios. [7] In order to analyze the efficiency of inventory management of Dabur India Limited, following ratios are calculated:

3.1 Inventory turnover ratio

Inventory turnover ratio is calculated to analyze the number of times inventory has been utilized while making sales. It depicts the turnover of inventory that is the churning of inventory during the complete operating cycle. The efficient ratio indicates optimum utilization of inventory and thus also of the funds engaged as inventory. It is calculated by using the following formula:

Inventory turnover ratio=COGS / Average inventory
OR
=Sales / Average inventory

3.2 Inventory to total current assets ratio

The percentage of inventory in total current assets is important to access as it is the major criteria to calculate quick ratio and super quick ratio. As per practical industry norms, the percentage of inventory should not rise above fifty percent of total current assets. If the percentage of inventory in total current assets is higher, that would mean accumulation of illiquid assets as current assets. Liquidity position is jeopardized in such cases. It is calculated by using the following formula:
Inventory to total current assets ratio =Inventory / Total current assets

4 CALCULATION OF INVENTORY MANAGEMENT RATIOS OF DABUR INDIA LIMITED

Established in the year 1884, Dabur India Limited today is almost 134 years old and is one of the leading FMCG companies with revenues of Rs 7,701 crores and market capitalization of around Rs 49,000 crores. Dabur India Limited is world leader in Ayurveda and Natural Health Care products, with a portfolio of over 250 herbal and ayurvedic products. It owns five flagship brands, having distinct market identity like Dabur, Vatika, Hajmola, Real and Fem. Its product categories today include health care, oral care, hair care, home care, skin care and food items.

5 ANALYSIS OF INVENTORY MANAGEMENT RATIOS OF DABUR INDIA LIMITED

Moving according to the objectives of the study, let us discover the objectives of inventory management. As it is known that inventory is a major component of total current assets and engages a substantial amount of working capital, it becomes imperative to manage inventory efficiently, in order to check total cost of production. Moreover, raw material is a part of direct cost and any increment in its cost will result in increase in the price of the product. Thus, the first and foremost objective of inventory management is to check the cost of the material unit. This is done through making bulk purchases of raw material, in order to get quantity and cash discounts and other types of concessions. Another objective of inventory management is to avoid the loss of production by maintaining inventory of raw material and loss of sales by stocking finished goods. This means that the organization wants to minimize the stock out cost. Stock out cost is the cost of opportunity lost due to unavailability of inventory. The sales may also be lost due to zero stock of finished goods. Another objective of inventory management is to minimize the number of units of any item to be carried over a period of time. This reduces the total carrying cost of inventory. It also contributes towards savings in the total cost of the organization. Though, it is true that if larger amounts of raw material are purchased, it becomes easy to negotiate but the benefits need to be compared with the cost of carrying such larger quantities as inventory as pilferage, theft, rains, rodents staling etc. might destroy the inventoried items and hence, increasing the overall cost. Inventory is also managed with the objective of continuing smooth business operations. Inventory of raw material ensures smooth production of finished goods and inventory of finished goods ascertains smooth sales operations. Thus, the objectives of inventory management include cost reduction and smooth production and sales operations.

In order to check the health of any organization, various types of analyses are done. Some are with the objective of checking financial health and some are for the purpose of test procedural accuracies. The overall objective of the organization is to keep a control on controllable costs which is ultimately reflected in increased profits. Most important components in any organization which require day-to-day attention are 4 Ms viz. Men, Money, Machines and Materials. Men are responsible for controlling the costs incurred towards the other Ms. The present study is focused on material that is better known as inventory. To inspect the performance of inventory, ratio analysis is a simple tool which helps in understanding whether its being manages efficiently or not. The inventory turnover ratio is calculated by dividing the cost of goods sold or the sales by inventory. It is a customary to use average inventory to calculate inventory turnover ratio. Here, closing inventory which entered into the balance sheet has been taken into account. Similarly, sales figures are the figures shown as revenue received from operations. Considering these figures, the inventory turnover ratios of Dabur India Limited for the past eight years are shown in Table 1. It is clear from the table that the highest ratio was during 2010 and then in 2015. However, the average inventory turnover ratio during the period of study is 7.51, which can be considered as impressive. During 2017, the ratio was 6.96 which is less than the eight year average. Since last three FYs, the ratio is showing decreasing trend, which should be considered alarming by the managers of Dabur India Limited. The ratios are however acceptable as if the inventory is being churned up 7.5 times during the year it is not at all bad. But the continuously decreasing inventory turnover ratio since last three years needs attention as the decrease is 11% in 2016 and 3% in 2017, based on previous year's figure. The decrease is 14% in 2017, if base year is 2015.

The inventory to total current assets ratio which is calculated as percentage of inventory in total current assets is important to understand the liquidity position of the organization. It is acceptable that inventory comprise of 50% of total current assets as inventory is the most illiquid current asset out of the whole lot. The analysts view it from the other side like if 50% is illiquid; liquidity is 50%, as other current assets are cash and receivables usually. So if the current ratio is 2:1, it is suggested that quick ratio is 1:1, illustrating that the organization has liquid assets equal to its current liabilities. This indicates that the firm is in the position to discharge its current liabilities comfortably. A quick ratio of less than 1 means that the liquid assets are less than the current liabilities and the firm may be facing cash stringency. The proportion of inventory in total current assets of Dabur India Limited during the eight years' period of study is 33.72%, on average. This is a healthy sign as it shows that 66.28% of the total current assets are liquid, on average. The point to ponder is that Dabur India Limited might be holding either more cash or receivables or some other type of current assets as its quick ratio is more than 1. Holding more receivables can be alarming over the years as there is always a probability that these may become irrecoverable. The highest proportion of inventory in total current assets is 35.59 in 2012 and 35.51 in 2017. One good thing with Dabur India Limited is that it holds the inventory as a constant portion of its total current assets, more or less. The variation is not very significant.

6 FINDINGS

Dabur India Limited is one of the best companies in the world, operating in the market of ayurveda and natural health care products. It has portfolio of around 250 products. Manufacturing such a large number of products also calls for large amount of inventories as well, varying in types and nature. Noticeable point in the inventory of Dabur India Limited is that it has lesser shelf life. This makes its management difficult. The procurement and use of such items has to be time bound or the items to lose their value. From Table 1, it can be noticed that sales has shown increasing trend during the period of study, except for the year 2016. Inventory has also shown an increasing trend from the year 2010 to the year 2017. Inventory figures are very well supporting the sales figures of Dabur India Limited. Another finding of the present study is total current assets have also exhibited an increasing trend during this period. The inventory turnover ratio has been maintained at the almost same level. However, it is decreasing during the last three years of study. The range of inventory turnover ratio is from 6.44 to 9.65 for the eight years' period of study. On average, this ratio has been maintained at 7.51 by Dabur India Limited. Proportion of inventory in total current assets is below 50% throughout the period of study. It is 33.72% on average and the range is from 31.40% to 35.59%. It shows that almost 63% of the total current assets are liquid current assets. It also means that Dabur India Limited has been maintaining a quick ratio of more than one. Dabur India

Limited has managed to maintain the level of inventory at constant proportion of total current assets. As it is known that all the employees.

7 CONCLUSION

As it is known that all the employees of an organization cannot be rewarded or promoted equally or every time. In order to do justice with genuine performers, it is very necessary to appraise the performance of each and every employee of the organization. There are many techniques of conducting this exercise. 360-degree appraisal is one such technique. In this technique, feedback about the performance, behavior and other attributes of an employee is gathered from all other employees of the organization. For the employees who are in touch with outsiders to the organization like sales personnel, the feedback is also gathered from distributors, customers etc. 360-degree feedback technique of performance appraisal is gaining popularity day by day as it has advantages over traditional techniques of performance appraisal as it ensures the involvement of each and every employee of the organization in the process of performance appraisal. It inculcates the feeling of completeness in the employees of the organization, as they feel that they are also important and can provide feedback about the doings of their seniors.

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