

Inventory Management Practices and Their Impact on Operational Efficiency: A Case Study of MGSSK Sugars Ltd.

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(Received 12 August 2024; Revised 5 September 2024, Accepted 29 September 2024; Available online 6 October 2024)

Abstract - In today's highly competitive business environment, effective inventory management is vital for maintaining operational efficiency and ensuring long-term sustainability. Proper inventory control reduces excess stock and prevents stock outs, leading to cost reduction and improved cash flow. By utilizing precise forecasting and strategic replenishment methods, companies can enhance their adaptability to market changes and sustain a competitive advantage. This research provides a thorough examination of inventory management metrics spanning five years. The primary objective of the study is to evaluate the effectiveness of inventory management. The data was primarily collected from secondary sources, including five years of company inventory records. To analyze the data, the ratio analysis method was applied. The results demonstrate notable improvements in the company's operational efficiency. Key performance indicators include a steady rise in the inventory turnover ratio and a reduction in average stock levels, showcasing effective inventory control aligned with increasing demand and minimizing surplus stock. Moreover, the study reveals a decreasing trend in inventory as a proportion of current assets, indicating a strategic shift away from relying on inventory for revenue generation. Additionally, variations in raw material values, coupled with consistent material consumption, suggest fluctuations in raw material usage efficiency. Furthermore, the relationship between the raw material turnover ratio and inventory holding period highlights the company's proficiency in optimizing inventory management. The declining inventory conversion period indicates successful transformation of inventory into sales, boosting cash flow and operational efficiency. This improvement is attributed to advanced forecasting and stock replenishment strategies.

Keywords: Inventory Management, Operational Efficiency, Inventory Turnover Ratio, Forecasting, Stock Replenishment

I. INTRODUCTION

Inventory management, an essential part of supply chain operations, directly influences a company's overall financial performance and operational effectiveness. Businesses that implement efficient inventory management can meet customer demands while maintaining optimal stock levels, reducing holding costs, and maximizing resource utilization.

Inventory management strategies are particularly crucial in industries like sugar manufacturing, which face supply chain complexities, seasonal fluctuations, and shifting market demands.

Inventory serves as a facility connected to raw material supplies, where proper handling of goods is essential for efficient production. Materials must undergo thorough testing and inspection upon receipt and be stored in a designated area called a storeroom. Storekeeping is the science of managing materials in a systematic and organized manner within a storeroom to prevent any form of damage. Appropriate material strength also contributes to reducing production costs.

The term "inventory" was first mentioned in 1601. Derived from French, "inventory," also known as an itemized list of goods, dates back to 1451. Inventory costs constitute a significant portion of business expenses, typically ranging from 60% to 70%. Companies may experience revenue decline due to inadequate monitoring and control of these costs.

In India, the sugar industry is a vital component of the agricultural sector, with sugarcane production widespread across numerous states. This industry significantly impacts the nation's economy, fostering job creation, rural development, and foreign exchange earnings. Sugarcane cultivation is a multifaceted process encompassing planting, care, and harvesting, which requires specific expertise. Post-harvest, sugarcane undergoes processing to yield various types of sugar, including white, brown, and specialty varieties. This processing involves multiple stages: juice extraction through crushing, clarification, evaporation, crystallization, and drying, ultimately producing the desired form of sugar.

The sugar extraction and refining process is highly automated, requiring advanced technology and machinery to ensure productivity and quality standards. The top management of these organizations needs to manage diversity and implement diversity strategies for successful outcomes.

The Indian sugar industry extends beyond primary sugarcane cultivation and processing, supporting a range of ancillary services essential for the efficient functioning of the entire supply chain. These services include the transportation of both raw materials and finished goods, storage facilities for sugar preservation, packaging services to ensure proper

presentation and distribution, and marketing efforts to reach domestic and international consumers. The integration of these supporting services into the sugar industry ecosystem

further enhances its overall efficiency and market competitiveness.

TABLE I OVERVIEW OF SUGAR PRODUCTION, EXPORT REVENUE, AND KEY TRENDS FOR MAJOR SUGAR-PRODUCING REGIONS IN 2023-2024

Region	Production (Metric Tons)	Export Revenue (USD Billion)	Key Trends
Brazil	Consistently over 30 million	9 (2023)	Leading exporter, consistent production
India	Significant producer and consumer	4 (2023)	Government support for farmers and exports
Thailand	Top exporter	2.5 (2023)	Faced drought challenges
European Union	Declining production post-2017	6 (2023)	Remains a key player

The sugar industry in India shows immense growth potential due to increasing domestic consumption, expanding international markets, and government support for the sector. The factors driving demand for sugar and related products

include rising population, income levels, and changing consumer preferences. Furthermore, the industry can tap into the global market by capitalizing on India’s comparative advantage in sugarcane cultivation.

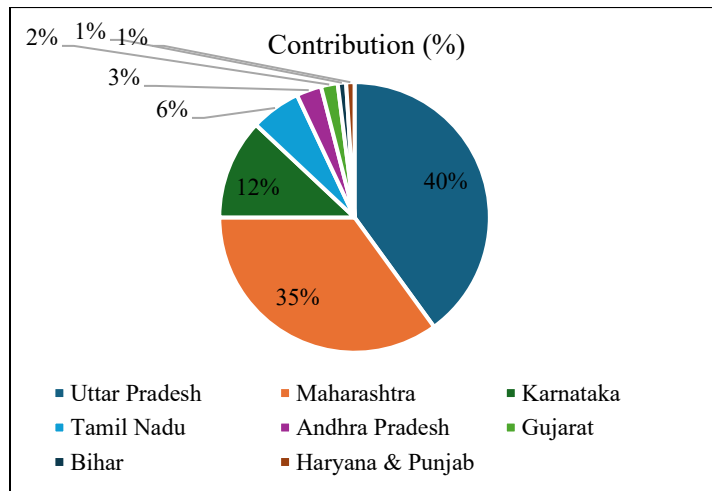


Fig. 1 State wise sugar production contribution

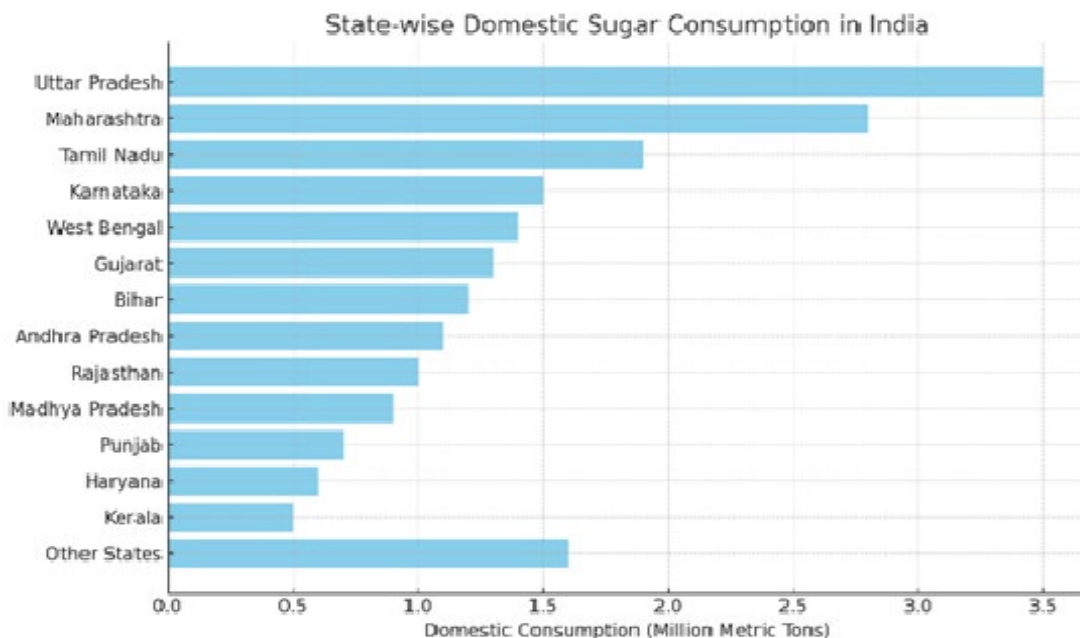


Fig. 2 State wise sugar consumptions

Beyond the primary activities of sugarcane cultivation and processing, the sugar industry in India supports a range of auxiliary services essential for the efficient operation of the entire supply chain. These services include the transportation of raw materials and finished products, storage facilities for sugar preservation, packaging services to ensure proper presentation and distribution, and marketing activities to reach consumers both domestically and internationally. The integration of these auxiliary services into the sugar industry ecosystem further enhances its overall efficiency and competitiveness.

MGSSK Sugars Bhalki, located in Bhalki, India, is a prominent player in the sugar manufacturing sector. Since its inception in 1991, the company has built a reputation for producing high-quality sugar products while adhering to ethical business standards. MGSSK Sugars Bhalki has established itself as a trusted name in the industry, attracting a loyal customer base and earning recognition for its commitment to excellence. The company's dedication to quality and integrity distinguishes it in the competitive sugar market, solidifying its position as a leading industry player.

MGSSK Sugars Bhalki has received widespread acclaim for its exemplary performance and unwavering commitment to excellence in the sugar industry. The company has been the recipient of numerous prestigious awards recognizing its premium-quality products, adherence to ethical practices, and significant community contributions. Noteworthy accolades bestowed upon MGSSK Sugars Bhalki include the Best Sugar Producer Award, the Excellence in Corporate Social Responsibility Award, and the Quality Assurance Recognition. These honors underscore the company's dedication to upholding the highest standards of excellence and integrity, reinforcing its leadership in the sugar industry.

II. REVIEW OF LITERATURE

The Indian sugar sector has experienced notable shifts in inventory management practices, driven by technological advancements and a push for greater efficiency. Patil and Deshmukh (2023) explored cutting-edge inventory management approaches adopted by sugar factories, emphasizing technology's transformative role. Their study showed that sophisticated software solutions and automation not only enhance inventory processes but also significantly decrease waste and boost overall operational effectiveness. Nevertheless, they also identified obstacles, such as high implementation costs and industry resistance to change.

Sharma and Reddy (2022) investigated the connection between inventory management performance and supply chain integration. Their research suggested that improved coordination with suppliers and distributors is linked to more accurate inventory levels and reduced costs. The authors pinpointed barriers to effective supply chain integration, such as a lack of trust and insufficient information sharing, which impede overall inventory performance in sugar production companies.

Bhattacharya (2022) demonstrated the critical role of forecasting techniques in inventory optimization. This research compared various prediction methods, showing that accurate demand forecasts are essential for minimizing stockouts and storage expenses. The study underscored that effective forecasting directly contributes to improved financial outcomes for sugar businesses.

Iyer and Patel (2021) examined the inventory management challenges faced by small and medium-sized sugar mills. They identified constrained financial resources, limited access to technology, and inadequate infrastructure as major hurdles. The authors emphasized the importance of training and development to improve inventory management practices among these smaller entities.

Verma and Kapoor (2021) explored the implementation of lean principles in inventory management within the Indian sugar industry. Their research indicated that lean inventory practices lead to waste reduction and improved efficiency. By presenting case studies of successful lean implementations in several sugar mills, they illustrated the potential for cost savings and better resource utilization.

Islam and Keya (2021) projected that labor costs, yarn costs, and electricity costs significantly impact power loom owners' sales revenue. Effective management of these resources helps to reduce organizational costs.

Rao and Mehta (2020) discuss how technological advancements have transformed inventory management systems in Indian sugar mills. They highlight the benefits of implementing Enterprise Resource Planning (ERP) systems, barcode scanning, and automated storage solutions, concluding that these technologies significantly enhance inventory accuracy and reduce operational costs.

Singh and Kaur (2020) analyze the sustainability aspects of inventory management within the Indian sugar industry. Their case study emphasizes the balance between maintaining optimal inventory levels and achieving environmental sustainability. They present evidence that sustainable inventory practices can lead to a reduced carbon footprint and lower operational costs.

Gupta and Joshi (2019) investigate the impact of various inventory control techniques on the profitability of Indian sugar mills. Their comparison of traditional methods with modern techniques, such as Just-In-Time (JIT) and Economic Order Quantity (EOQ), reveals that mills adopting modern techniques tend to experience greater profitability and improved inventory turnover ratios.

Lastly, Desai and Nair (2019) conduct a regional analysis of inventory management challenges in the Indian sugar industry. Their study identifies regional disparities in inventory practices due to differences in infrastructure, technology adoption, and local regulations. This research underscores the need for tailored approaches to inventory

management that consider the unique challenges faced by sugar mills in different states.

III. METHODOLOGY

The research was based on secondary data collected from MGSSK Company to gather information relevant to the study. Specifically, five years of company inventory data were obtained from official company reports. This data provided a robust foundation for the analysis, offering insights into inventory trends, patterns, and potential correlations with other variables.

A. Objectives of the Study

The primary objective of the study was to evaluate the effectiveness of inventory management. The secondary objectives were to assess the turnover and conversion periods of the company’s raw materials and to examine working capital management. Ratio analysis techniques were applied to analyze the inventory data using Microsoft Excel.

IV RESULTS AND DISCUSSION

A. Inventory Turnover

- 1. Increasing Inventory Turnover:** The inventory turnover ratio has been steadily increasing over the past five years, indicating that the company is becoming more efficient in managing its inventory.
- 2. Declining Average Stock:** The average stock level has been decreasing, suggesting that the company is reducing its stock holdings and improving its inventory management practices.
- 3. Correlation with Net Sales:** There appears to be a general correlation between net sales and the inventory turnover ratio. As net sales increase, the inventory turnover ratio tends to increase as well, suggesting that the company is effectively managing its inventory to meet growing demand.

TABLE II REPRESENTS THE INVENTORY TURNOVER

Year	Net Sales (CRS)	Average Stock	Ratio
2019-2020	2808.91	243842	1.15
2020-2021	2911.51	230415	1.26
2021-2022	2809.19	203665	1.37
2022-2023	2983.72	180876	1.641
2023-2024	2834.66	170462	1.662

The increasing inventory turnover ratio and declining average stock levels suggest that the company is becoming more efficient in managing its inventory. This efficiency is attributed to factors such as improved forecasting, better demand planning, and more effective stock replenishment strategies. The correlation between net sales and the inventory turnover ratio indicates that the company can adapt its inventory levels to meet changing market conditions.

B. Inventory Current Assets

- 1. Decreasing Trend:** The percentage of inventory to current assets has generally decreased over the past five years, indicating that the company has become more efficient in managing its inventory and working capital.
- 2. Fluctuations:** While there has been a general downward trend, the percentage has fluctuated slightly from year to year, likely due to various factors such as economic conditions, changes in business strategy, and industry-specific trends.

TABLE III REPRESENTS INVENTORY CURRENT ASSETS

Year	Inventory	Current Asset	Percentage
2019-2020	2,45,620	4,14,936	59%
2020-2021	2,15,210	3,68,474	58%
2021-2022	1,92,120	3,58,858	54%
2022-2023	1,69,632	3,34,027	51%
2023-2024	1,97,446	3,41,884	58%

A declining percentage of inventory relative to current assets indicates that the company is effectively managing its inventory and decreasing its dependence on inventory to drive revenue. This improvement may be attributed to factors such as enhanced demand forecasting, more accurate planning, and increased efficiency in inventory turnover. Nevertheless, it is critical to ensure that inventory levels do not become excessively low, as this could result in stockouts and potential lost sales, ultimately affecting customer satisfaction and revenue generation.

C. Raw Materials Turnover

- 1. Fluctuations in Raw Materials Value:** The value of raw materials has fluctuated over the past five years, with a slight increase in 2020-2021, followed by a decrease in 2021-2022, and then an increase again in 2022-2023.
- 2. Consistent Consumption of Materials:** The quantity of materials consumed has remained relatively consistent over the past five years, with minor variations.
- 3. Variable Ratio:** The ratio of raw materials value to materials consumed has fluctuated, indicating that the efficiency of raw material usage has varied over the years.

TABLE IV REPRESENTS RAW MATERIALS TURNOVER

Year	Materials Value	Materials Consumed	Ratio
2019-2020	1,72,427	1,78,174	-
2020-2021	1,61,734	1,67,081	0.96
2021-2022	1,37,368	1,49,551	0.96
2022-2023	1,48,999	1,42,546	0.91
2023-2024	1,35,404	1,42,541	1.03

The variability in the value of raw materials can be ascribed to a range of factors, including fluctuations in market prices, disruptions within the supply chain, and alterations in

sourcing strategies. The steady consumption of materials indicates that the company has sustained a relatively stable production level. However, the variable ratio signifies that the company's efficiency in the utilization of raw materials has not been uniform, with certain years demonstrating superior efficiency compared to others.

D. Raw Materials Conversion Period

- 1. Fluctuations in Raw Material Turnover Ratio:** The raw material turnover ratio has fluctuated over the past five years, with a slight increase in 2021-2022, followed by a decrease in 2022-2023.
- 2. Decreasing Inventory Holding Period:** The inventory holding period has generally decreased over the past five years, indicating that the company is becoming more efficient in managing its inventory.
- 3. Correlation Between Turnover Ratio and Holding Period:** There appears to be a general correlation between the raw material turnover ratio and the inventory holding period. As the turnover ratio increases, the holding period tends to decrease, suggesting that the company is effectively managing its raw material inventory.

TABLE V REPRESENTS THE RAW MATERIALS CONVERSION PERIOD

Year	Days in Year	Raw Material Turnover Ratio	Inventory Conversion Holding Period
2019-2020	365	0.9	405
2020-2021	365	0.96	380
2021-2022	380	0.91	401
2022-2023	401	1.03	354
2023-2024	354	0.94	388

A higher raw material turnover ratio signifies that the company is effectively converting its raw material inventory into finished goods. Additionally, a shorter inventory holding period indicates that the company is minimizing the duration for which raw materials are retained in stock, thereby reducing the risk of obsolescence and enhancing cash flow. The correlation between these two metrics suggests that the company is adept at managing its raw material inventory to align with production requirements while simultaneously minimizing costs.

E. Inventory Conversion Period

- 1. Decreasing Inventory Conversion Period:** The inventory conversion period has been steadily decreasing over the past five years, indicating that the company is becoming more efficient in converting its inventory into sales.
- 2. Improved Inventory Management:** The reduction in the inventory conversion period suggests that the company has implemented effective inventory management practices, such as improved forecasting, better demand planning, and optimized stock replenishment strategies.

TABLE VI REPRESENTS INDICATING INVENTORY CONVERSION PERIOD

Year	Days in a Year	Inventory Ratio	Inventory Conversion Period
2019-2020	365	1.15	317.39
2020-2021	365	1.26	289.68
2021-2022	365	1.37	266.4
2022-2023	365	1.641	221.2
2023-2024	365	1.662	219.61

V. CONCLUSION

An extensive evaluation of inventory management indicators over the last five years demonstrates notable enhancements in the company's operational productivity. The steady rise in inventory turnover, accompanied by reduced average stock quantities, suggests effective inventory control to meet increasing demand while minimizing surplus stock. This efficiency is further supported by the positive relationship between net sales and the inventory ratio, indicating a successful alignment of inventory levels with market conditions. The downward trend in inventory as a proportion of current assets reflects a strategic shift away from relying on inventory for revenue generation, attributed to improved demand forecasting and inventory management techniques. Nevertheless, the company must carefully balance these improvements to prevent stockouts, which could adversely affect customer satisfaction and sales. In terms of raw materials management, variations in raw materials value, combined with consistent material consumption, indicate stable production levels but fluctuating efficiency in raw material utilization. The relationship between the raw material turnover ratio and inventory holding period underscores the company's capacity to optimize raw material inventory, thereby reducing costs and obsolescence risks. The ongoing reduction in the inventory conversion period indicates the company's improved ability to transform inventory into sales, enhancing cash flow and operational efficiency. These positive outcomes can be attributed to the implementation of effective inventory management practices, including enhanced forecasting and optimized stock replenishment strategies.

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