

The 'Access to Finance' dilemma: Case Study of a Microenterprise in Lavasa

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Abstract— Finance is one of the major constraints for the growth of micro enterprises. With their limited capacity to generate internal resources, micro enterprises stand to gain more than their larger counterparts if they are given access to institutional credit. Given the information asymmetries prevailing in this segment, banks are reluctant to extend credit. The lack of finance from banks restricts growth of such enterprises as they become dependent on internal sources of finance or alternatively on high interest market sources. This often leads to an inability to realize the full potential of the business opportunity.

This case study seeks to examine the role of 'access to finance' in constraining growth. We do this by following the progress of a micro entrepreneur, Ganesh Kumar, who in 2010 set out on his entrepreneurial journey with a small pan shop in Lavasa and over a six year period generated enough resources from the pan shop to set up a mini ice cream parlour and finally a small general store named Ganesh Mart, in the face of the challenge from a relatively well funded and better known shop in the township. Ganesh and his wife run this small general store and have so far been able to successfully ward off the competition by catering to two of the most stable market segments in Lavasa, viz., the residents of an adjacent senior citizen's colony and college students whose hostel is nearby. However, the logic of business demands that they keep growing to sustain their advantage. Ganesh Kumar now faces the challenge of raising funds for the expansion and is confronted with the classic problem of 'access to finance'.

Keywords— Access to Finance, Demand Gap, Knowledge Gap, Supply Gap, Benevolence Gap, Pre-Sanction Appraisal

I. INTRODUCTION

Ganesh Kumar first came to Lavasa in 2010 when he was working as a driver for a construction company. Lavasa, a private township in the Sahyadri Hills of Pune district, was then in the making. Lavasa Corporation, a subsidiary of the Hindustan Construction Company Ltd., had started work on the development of Lavasa City, which was planned as a tourism and educational hub. The construction work was then in progress and thousands of laborers were camped in the area. Ganesh Kumar, who in the course of his work came to know these laborers better, realized that they had pan (betel leaf) regularly, and hence there was an opportunity to set up a pan shop, as pan was not available locally. Ganesh Kumar left his job with the construction company to work on this new venture. He raised Rs.5000 from the sale of his wife's gold ornaments and set up a small pan stall in the village market area, in 2010. Thus began his journey as an entrepreneur.

The economic and demographic factors that prevailed in Lavasa at that point in time were favorable for Ganesh Kumar. The labor concentration had changed the demographic profile of the area while the substantial investments in construction activity had altered the economic profile. These changes created an opportunity, and as has been found by scholars, such factors play a major role in the sustainability of microenterprises. Ganesh Kumar's reliance on his internal financial resources, similarly, follows the path suggested by literature - that a large majority of entrepreneurs rely on their own funds to start a business. Thus, the Fourth Survey of the MSME sector, 2009 states that 92.77% of entrepreneurs rely on their own resources.

The pan stall was a success from the first day, with sales of Rs.750. As news of the shop spread the customers flocked in and sales grew manifold. Ganesh Kumar admits today that this was more than he had ever hoped for. This led him to think of expanding the shop. He had a large margin of profit as he bought the betel leaves and ingredients for making pan at a discount in Pune and sold each pan at a much higher price. Sales steadily increased and Ganesh Kumar was now able to put money aside for the future. He also realized that the demand was sufficient to justify a bigger shop. There was space immediately adjoining the pan stall and Ganesh Kumar decided to set up a bigger shop there. He estimated that he needed Rs.150000 for the expansion and this amount was already available with him from the profits of the little pan shop, which had now been functioning for a year. He had a metal cabin fabricated as per the space available and with an eye on the future he ensured that the dimensions of the cabin were larger than the immediate requirement. He inaugurated his new shop in 2011. He named the shop Mahesh Pan Stall. He also opened a Current account with the Lavasa branch of the State Bank

of India. It is worth mentioning that at this stage Ganesh Kumar did not have any debt as his internal fund generation was more than sufficient.

The new shop was a success and sales continued to increase. An extract from the Profit and Loss Account for the first two complete years of the business is given below.

TABLE I
Profit and Loss Account

	2010-11	2011-12
Sales	1200000	1500000
Purchases	909091	1136364
Gross Profits	290909	363636
Rent	36000	36000
Other Expenses	32600	41600
Net Profit	222309	286036

As can be observed, Ganesh Kumar with an initial investment of only Rs.5000, had managed to create a successful business which generated a profit of Rs.2.22 lakhs in the first year. Ganesh was able to plough back Rs.1.50 lakh into the business and expand it. Profits had increased to Rs.2.86 lakhs in the second year. Ganesh Kumar now had sufficient liquidity to make a 20% down payment for a small Maruti van, which made it easier to bring in supplies from Pune. The balance amount was financed by the car dealer. Ganesh Kumar repaid the loan instalments directly to the car dealer from the earnings of his shop.

With his pan business continuing to generate money Ganesh Kumar began to think of changing the nature of his shop. He realized that once the construction activity ended the labourers would leave and the business for pan would no longer be viable. The demographic factors that had played out in his favour would now work against him. He, therefore, needed to look beyond pan.

Ganesh Kumar, also realized that a new potential segment was emerging in Lavasa. These were the tourists, who had now begun coming to Lavasa. Lavasa had been planned for tourists and the hotels and restaurants, along with the captivating scenery, was sufficient to draw a steady stream of tourist traffic. To attract these holiday makers Ganesh Kumar realized that he needed to stock items that would be of interest to them. He hit on the idea of stocking ice cream. On making enquiries he found that Kawre Ice Creams, a local Pune brand, was willing to allow him to retail their products. He needed two refrigerated ice cream display units, each of which came at a price of Rs.27000. The Kawre Ice Cream sales person would ensure that timely replenishments of ice cream, as per requirement, were received by the shop. Ganesh Kumar decided to stock stationery and hosiery items as well. He estimated the investment required for the ice cream machine and stationery items at Rs.120000. The internal fund generation from Mahesh Pan Stall once again came to his rescue. The ice cream parlour started in 2012 soon after the Diwali festival.

Upto this point, Ganesh Kumar was running the shop single handedly and had not considered getting a sales person. In those days, his wife was unable to contribute in any way and this put a lot of pressure on Ganesh Kumar. Sales and profits were increasing and Ganesh Kumar had to ensure an uninterrupted supply of pan and ingredients from Pune. This meant that he attended to the shop through the day, returned to Pune at night, picked up supplies and then returned to Lavasa the next morning. He needed assistance, but he reasoned that with an employee he could think of expanding into a new activity. He had observed that locals needing to photocopy documents had no option but to travel more than 30 kms to the outskirts of Pune. Local contractors, working with the Lavasa Corporation, frequently needed to photocopy bills and documents. Ganesh Kumar saw that he could provide the photocopying service and make this a complementary source of revenue. He found on enquiry that the cost of a photocopy machine was Rs.45000. Ganesh Kumar took the next step by purchasing the photocopy machine and simultaneously hiring a sales person at a monthly salary of Rs.10000. The revenue from the photocopy machine paid for the salary of the new employee. Ganesh Kumar would now leave Lavasa for Pune in the evening and return the next morning with supplies. Ganesh had time now to review his performance over the last two years. A snapshot of his business figures is given below through an extract of his Profit & Loss Statement.

TABLE II
Profit and Loss Account

	2012-13	2013-14
Sales	2500000	3000000
Purchases	1893939	2250563
Gross Profits	606061	749437
Rent	36000	36000
Other Expenses	171600	191400
Net Profit	398461	522037

Ganesh Kumar's investment in the business had now increased to Rs.270000 and he was successfully able to maintain a short working cycle, with sales reaching Rs.30 lakhs in 2013-14.

It was in this period (2012-13) that Ashiana, a senior citizens' housing complex caught Ganesh Kumar's attention. These senior citizens had bought flats and villas in the housing complex and a certain proportion of them were permanent residents. Ganesh Kumar, ever alert to any change in the demographic, sensed an opportunity here. He began to find time to associate with the Ashiana sales and maintenance staff at Lavasa and over the next year built up a personal relationship with key functionaries at the complex. He learnt that Ashiana was committed to providing its residents with a bus service to Pune thrice a week. However, they had not bought a bus yet and were still looking at different options for providing this service, including leasing a bus.

Ganesh Kumar, with the confidence of his success as a small shop owner, felt that it was time for him to take a leap and enter the transport business and enlarge his business enterprise. Being a driver by profession, and having run a taxi in the early days of his career, the idea of running a bus service for Ashiana was not daunting for him. He offered to purchase an AC bus and lease it to Ashiana, a proposal to which they agreed. Ashiana was willing to pay him Rs.95000 per month on a lumpsum basis for a running of 3000 kms per month. If the bus covered a distance exceeding 3000 kms per month Ashiana would pay at the rate of Rs.10 per km for the extra distance covered. The cost of diesel and the bus driver would be borne by Ganesh Kumar. He felt that these terms were fair and he now proceeded with the task of purchasing a bus. He found that he would need Rs.11 lakhs for the bus, but would have to make a down payment of only Rs.3 lakhs, as the dealer was willing to extend him the necessary finance for the balance amount of Rs.8 lakhs. In a classic case of bootstrapping Ganesh Kumar now managed to arrange Rs.2 lakhs on his own using the profits from the shop and stretching his personal resources. However, he was still short of the required amount of Rs.3 lakhs.

This was the first occasion when he found himself in a position where the only option was to borrow. Hitherto, he had always managed to fund himself from the profits his shop made. Forced to arrange funds, he approached local banks but found them reluctant to consider his proposal as Ganesh Kumar had no financial history. He had not found it convenient to deposit the entire sales proceeds of his shop in a bank account as he would deal in cash. His sales and purchases were largely in cash and he had no immediate need of the bank. Ganesh Kumar was not aware of the future implications of this decision. For banks the problem of information asymmetry is often insurmountable, as mentioned in the literature. Ganesh Kumar, with his lack of knowledge of the way a bank works, had not factored this in when he began his business. It now came back to haunt him.

With the banks unable to provide assistance, Ganesh Kumar turned to his family and was able to raise a loan of Rs.1 lakh. In addition to the Rs.2 lakhs of his own funds, this allowed him to make the down payment of Rs.3 lakhs for the bus. As the dealer financed the balance of Rs.8 lakhs, Ganesh Kumar now became the owner of a new AC bus. This was in the year 2013. He employed a driver and leased the bus to Ashiana on the terms discussed above. Ganesh Kumar recalls that this turned out to be a good decision as the monthly lease rental that Ashiana paid covered the running costs of the bus, the salary of the driver as well the monthly instalment to the bus dealer. The bus eventually paid for itself over the course of time it remained with Ashiana. The contract with Ashiana came to an end in 2016, after which it was not renewed.

Ganesh Kumar, almost entirely on the strength of his own entrepreneurship abilities and with no institutional funding, had established himself as a small businessman with two earning assets in his portfolio – his shop and his bus service. He had come to Lavasa in 2010, as an employee of a construction company, with no capital and had gone on to find profitable opportunities and make the most of them. He had during this period strengthened his personal relationship with the Ashiana staff and residents.

Ganesh Kumar had also begun to eye another market segment that was promising – the students of Ecole Hotelierie and Christ Institute of Management. He observed that many of these students and the senior residents of Ashiana patronized the Lavasa Provisions Store, which was located further up the street, in premises rented from the Lavasa Corporation. Customers wanting to make purchases there were required to park their vehicles on the street and then walk down a flight of steps to reach the shop. Having made their purchases they had to make their way back to their vehicles. This was not very convenient, for the senior citizens of Ashiana or the students. Ganesh Kumar realized that his ice cream parlour was better located but not big enough to be made into a general store. The location could help him to draw a sizeable number of customers away from the Lavasa Provisions Store and give him an early break-even. However, at this point of time, there were no premises available in the vicinity of the ice cream parlour, so Ganesh Kumar was unable to take his plans forward. However, two new developments were to come to Ganesh Kumar's rescue.

Ashiana needed a provisions store, and initially they established it on their premises. The sales were restricted to the residents and predictably it was not viable. It began incurring losses and had to be closed down. Ganesh Kumar was now approached by Ashiana to revive the provisions store on their premises and run it. Ganesh Kumar realized that opening a provisions store within the Ashiana premises would not be viable as it would be closed to outsiders. He was able to convince Ashiana that it would serve their purpose better if he opened a store somewhere in the village market area. Ashiana had bought a set of battery operated go-carts for the benefit of its residents and Ganesh Kumar persuaded them to allow these go-carts to extend their route up to his proposed shop. Residents could therefore obtain the provisions they required from his shop. The second development was the sudden closure of a hardware shop located next to his ice cream parlour. This was the opportunity Ganesh Kumar had been waiting for, and he immediately rented the rooms vacated and started the process of setting up the general store. For the first time he had a chance to operate out of a proper brick and mortar shop alongside a few other shops in the same building.

Ganesh Kumar estimated that the investment required to purchase and install the storage cabinets, racks, counter and the stock of goods for the new provisions store would be about Rs.400000. He proposed to shift the refrigerated ice cream display units to the new general store. He would retain the pan shop and the Xerox machine would remain in the same cabin as the pan shop. The circumstances were favourable, but as is often the case, finance was the problem.

The amount of funds which Ganesh Kumar could arrange for the setting up of the new general store was only Rs.200000. He found that he could not raise any further loans from his family and now had a serious problem. Ganesh Kumar had accounts with both State Bank of India and Union Bank of India, the two banks that had branches in Lavasa. He turned to them for financial assistance. Though he was now a customer the banks were unable to take a view on his credit worthiness as he had no credit history. Moreover, the banks took a very conservative view about the future of Lavasa township, which had run into problems ever since a stay order on further construction activity had been obtained from the courts. The banks felt that with the ban on construction activity, Lavasa would fail to attract sufficient tourists and economic activity and as such the future of all business establishments in the township was in doubt. They were, therefore, unwilling to extend any credit to Ganesh Kumar. Ganesh Kumar approached banks in Pune with whom he had an account, but found that they would not even accept a loan application from him on the ground that Lavasa was outside their service area.

With no option Ganesh Kumar now was forced to approach private financiers for the balance of Rs.200000. He finally obtained the funds from them, at relatively higher rates of interest, and set up his new general store. The refrigerated ice cream display units were now shifted to the new premises. With the funds he had arranged, Ganesh Kumar now stocked the new general store with all common items of daily use, including grains, pulses, a range of dairy products, bread and snacks, apart from stationery items and a few hosiery items. Ganesh Mart had now come into being. Ganesh Kumar needed someone to run Mahesh Pan Stall and for this he hired an additional employee. He was now the proprietor of two shops. He continued to bring in supplies from Pune on a daily basis in his own vehicle, which he equipped with ice boxes for perishable items.

The success of the store depended on two factors. The first was the locational advantage over its major competitor, Lavasa Provision Store. Customer surveys conducted by research scholars have found that one of the major advantages that small grocers have over their bigger counterparts is location. This worked in favour of Ganesh Mart. The store was able to draw away customers from the Lavasa Provision Store.

The second factor was the relationships Ganesh Kumar had built up with the senior citizens of Ashiana and the students. These represented the most stable market segments in Lavasa and they were giving steady business to Ganesh Kumar. Scholars have found that small grocers tend to have an individual orientation and the establishment of personal relationships is seen as an inherent advantage.

Ganesh Kumar leveraged these advantages and over the next two years the sales increased steadily. The table below captures this growth.

TABLE III
Profit and Loss Account

	2015-16	2016-17
Sales	4000000	4800000
Purchases	2985075	3720930
Gross Profits	1014925	1079070
Rent	121000	180000
Other Expenses	468000	504250
Net Profit	425925	394820

The profitability of the new shop was hampered by costs from the start. The cost of the debt raised from the market was high and brought down profits. The other factor was the employee cost. Ganesh Kumar now had two sales persons.

With the banks unwilling to extend credit Ganesh Kumar had no way of settling the market borrowings. The only action at his level was to run the shop without employees. He asked his sales persons to leave and henceforth his wife became the sales person. She began living in Lavasa in a little room behind the shop and managing the store. In an effort to boost sales she kept the store open from 6.30 am in the morning till 10.30 pm at night. Ganesh maintained the supply line. He also spent time looking for a cheaper source of finance but found yet again that there was no finance to be had from banks. However, the contribution of his wife helped not only to bring down costs but significantly increased sales.

Ganesh Kumar has been able to establish himself as a successful shop owner in Lavasa. With no previous links to Lavasa he has been able to carve out a small niche for himself. His shop is well known and today has a steady stream of customers, which include the senior citizens of Ashiana, students, tourists and even some of the local villagers. His sales, as we have seen, have increased steadily over the years and so have his profits. However, he now faces competition from some shops that seek a share of the same market. As they are located in the same village market area as him, he does not have a locational advantage.

The dilemma he faces is the classic one. Ganesh Kumar says that he can differentiate his shop from the others by making it a giving it the modern feel of a self-service store, where customers can pick up the items they need themselves and pay at the cash counter. As Lavasa does not have a self-service store this could be the logical way forward. However, for this to become reality Ganesh Kumar needs bank finance, which at the moment is not available. Alternatively, he can continue with his present shop and face the competition on the strength of his greater experience and a reasonably strong customer base.