

Dilemmas of a Young Entrepreneur

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Abstract: *This Case study delves into the challenging journey of Mr. Suhas Mulley, a young aspirant looking to embark on an entrepreneurial venture after losing his job due to the Covid-19 pandemic. The narrative unfolds as Suhas explores diverse business opportunities, including opening a snooker club with a unique Chinese fast-food menu, investing in a caustic soda plant, and starting a grocery store. Each option comes with its own set of financial implications and market prospects. The article captures the essence of making informed business decisions in uncertain times, considering various factors like initial investment, profitability, market demand, and personal interests. It also touches upon the financial analysis aspects such as Net Present Value NPV, cost of equity, and capital structuring, offering insights into the complexities of entrepreneurial decision-making in a post-pandemic world. This case can be used in the class for better understanding of Capital Budgeting.*

Keywords: Entrepreneurship, Business Decision-Making, Financial Analysis, Post-Covid Economy, Startup Opportunities

Mr. Suhas Mulley has lost his job during Covid times, and now 26 wants to start his own entrepreneurial journey.

He expresses his desire to his father, Mr. Sadanand Muley. Mr. Sadanand Muley is a Railway employee and has a daughter and wife to take care of. Sohans sister is 18 and wants to pursue engineering. Mr. Sadanand Muley encourages his Son by asking him to research the various options available to him.

Suhas went to Belgaum for his friend's wedding where he meets his friend Abhay who runs his snooker club in Belgaum. Abhay shares that his business is quite lucrative with good profitability and gives a fair account of the business.

Abhay has been playing the billiard game for several years the billiard cafe was closed for some reason. Therefore, he formed an idea to open a special billiard club for the whole city. "I did some investigations about the competitors around and the reason why that was closed. Then I decided to open a Professional billiard club with special Chinese fast food". It could be considered a vertical integration. Three competitors were found in the same area, which were not focusing on billiards, they were all just having 1 or 2 tables for entertainment. Key to Abhays success were:

- 1) Fair price & lower price with a membership
- 2) Nice tables and snooker cues & good maintenance
- 3) As a billiard player, it is important to keep good relationships with customers
- 4) A good decoration of the billiard club seems to be more professional and attractive
- 5) Create a unique, innovative, entertaining menu that will differentiate us from the rest of the competition.
- 6) Chinese-style fast food such as spring rolls, dumplings and prawn cracker, etc. also with soft drinks would make customers satisfied

Abhay was of the opinion that with an investment of 35 lakh Suhas could easily earn 35000 per month for the next five years. Now Suhas researches on the Snooker cum billards club and finds that the claims made by Abhay to be true.

Meanwhile, Mr. Sadanand meets one of suppliers MrNadger, who suggests a caustic soda plant in which his brother has invested and earns good income. Caustic soda pearls (also known as sodium hydroxide, caustic soda, NaOH, sodium hydrate, or Sodagrains) are white spheres of caustic soda, with a barely perceptible odour. They are soluble in water, with the liberation of heat, and are stable under normal conditions. Caustic soda is a strong base and, as such, has many applications in industries all over the world, both now and in the past. It is one of the oldest manmade chemicals with excavations in Egypt showing samples of it dating from 3000 B. C. The highest demand for caustic soda comes from the paper industry where it is utilised in pulping and bleaching processes. aluminium industry uses caustic soda since it dissolves bauxite ore, Another major use for caustic soda is chemical processing as caustic soda is a basic feedstock for a range of down-stream products including solvents, plastics, fabrics, adhesives etc. The global caustic soda market is expected to reach USD 46.31 billion by 2024.

Mr. Nadger claims that with an investment of Rs.20 lakh the earning would be Rs 35000per month in year 1, 45000pm in year 2, 55000 pm in year 3 and 1lakh pm in year 3. Suhas and his father discuss the options and realize that they both do not have knowledge and experience of the above fields and should explore more options.

Suhas decided to visit his cousin who runs the Arya Retail Grocery Stores in Hubli. In terms of population and demand, opening a Kirana store seems like a great idea but investing in a supermarket is one thing and sustaining it is another. Supermarket profit margins in India are low until you become a well-established brand. So if you are new to the business, then you need to be very careful. One mistake and you could lose your customer.

After taking into account all the costs, the minimum investment for a small store would range between Rs.10 lakhs-Rs.20 lakhs, and this can go up to crores depending on whether you want to open a departmental store or a supermarket. As mentioned before, business loans are easily available these days with excellent offers, so if your dream is to own a bigger store, you don't need to give up on the same. Just make a cost-benefit analysis and then invest

Volume 12 Issue 12, December 2023

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accordingly. The lockdown gave us a reality check on how groceries are a necessity. Grocery is one thing that will never become non-essential, and this alone is a good reason to venture into this space. The average grocery store profit margin ranges from 5% to 20%. His cousin suggested that he should start with an investment of 10 lakh He guaranteed FCF of Rs.25000pm for 5 years.

Now Suhas is unable to decide which business is suitable and profitable. Suhas father said he was ready to invest Rs 500000, in any business of his choice if he promises to give Rs 10000 per month for household expenses. Suhas enquired with KSFC, the rate of interest applicable is 4.5%. Suhas has come to you for financial analysis of the option available to him.

- 1) Which option is feasible based on NPV if the cost of capital is assumed to be 10 %?
- 2) What is the cost of equity? Assume investor is his father Mr. Sadanand.
- 3) What is the cost of debt assume zero tax for first five years. What the Overall cost of capital?
- 4) Should Suhas take the entire amount from KSFC at 4.5%? Why or why not? What kind of capital structure do you suggest for Suhas?

In conclusion, Suhas Mulleys journey exemplifies the complexities and critical decision-making involved in choosing an entrepreneurial path, especially in a post-Covid landscape. The exploration of different business ventures-from a unique snooker club and a caustic soda plant to grocery store-highlights the importance of thorough market research, financial viability assessment, and personal passion in business success. This case study underscores the necessity for aspiring entrepreneurs to conduct comprehensive financial analyses, understand market demands, and align their choices with their expertise and interests. Suhas story is a testament to the resilience and adaptability required for entrepreneurial success in challenging times.

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