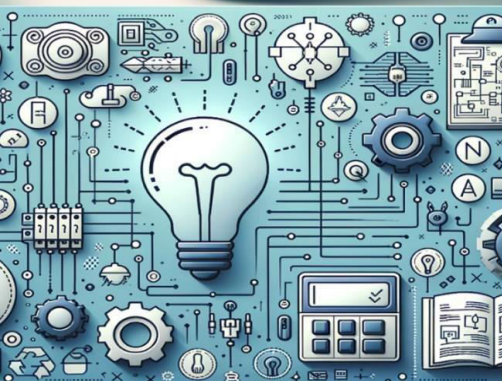


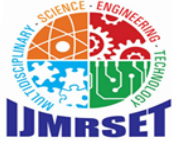
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Influence of Interest Rates Offered by NBFCs on Corporate Borrowing Decisions

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ABSTRACT: The rapid growth of Non-Banking Financial Companies (NBFCs) has significantly transformed the financial landscape by providing diversified credit facilities to corporate borrowers. This study examines the influence of interest rates offered by NBFCs on corporate borrowing decisions and analyzes how these rates affect the financing preferences of businesses. In recent years, NBFCs have emerged as important financial intermediaries, especially for companies that face difficulties in obtaining timely credit from traditional banking institutions. Their flexible lending procedures, faster loan approvals, and customized financial products have increased their attractiveness among corporate borrowers despite comparatively higher interest rates in certain cases. The research focuses on understanding the relationship between interest rate structures and the borrowing behavior of corporate firms. It evaluates whether companies prioritize lower interest costs over factors such as loan accessibility, repayment flexibility, collateral requirements, and speed of disbursement. The study also investigates how market conditions, monetary policy changes, and risk assessment practices adopted by NBFCs influence borrowing decisions. Both large enterprises and small and medium-sized enterprises (SMEs) are considered to identify variations in borrowing patterns.

KEYWORDS: Non-Banking Financial Companies (NBFCs), Interest Rates, Corporate Borrowing Decisions.

I. INTRODUCTION

The financial sector plays a vital role in the economic development of a country by ensuring the smooth flow of funds between savers and borrowers. In modern economies, businesses require continuous financial support for expansion, working capital management, technological advancement, infrastructure development, and operational efficiency. Traditionally, commercial banks have been the primary source of finance for corporate entities. However, over the past few decades, Non-Banking Financial Companies (NBFCs) have emerged as important financial intermediaries, significantly contributing to the credit requirements of industries and businesses. The increasing role of NBFCs in corporate financing has attracted the attention of policymakers, researchers, and business organizations, especially regarding the interest rates they offer and their influence on corporate borrowing decisions.

NBFCs are financial institutions that provide various banking services without holding a banking license. They engage in activities such as loans and advances, asset financing, investment in securities, leasing, hire purchase, and microfinance services. In countries like India, NBFCs have gained remarkable importance due to their flexibility, customer-oriented services, simplified documentation, and faster loan approval processes. These institutions serve sectors and customers that are often underserved by traditional banks, including small and medium enterprises, infrastructure companies, start-ups, and corporate borrowers with specialized funding requirements. As a result, NBFCs have become a crucial component of the financial ecosystem.

One of the most significant factors affecting corporate borrowing decisions is the rate of interest charged on loans. Interest rates represent the cost of borrowing capital and directly impact the profitability, investment planning, and financial stability of companies. Corporate organizations carefully evaluate interest rates before selecting a source of finance because borrowing costs influence overall business expenses and future returns. Even a small variation in interest rates can substantially affect a company's repayment burden, especially in large-scale financing arrangements. Therefore, businesses continuously compare lending rates offered by banks and NBFCs to choose the most suitable financial option.

The influence of interest rates offered by NBFCs on corporate borrowing decisions has become increasingly important in recent years. Unlike traditional banks, NBFCs often provide customized financial products and flexible repayment



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structures. Although NBFC interest rates may sometimes be slightly higher than those of commercial banks, many corporate borrowers still prefer NBFCs because of their speed, convenience, and accessibility. Companies facing urgent funding needs or those unable to meet strict bank eligibility criteria often rely on NBFCs for timely financial assistance. Consequently, the borrowing behavior of corporations is no longer determined solely by lower interest rates but also by other factors such as loan processing speed, collateral requirements, customer relationships, and financial flexibility.

The changing economic environment and growing competition in the financial sector have further intensified the role of NBFCs in corporate financing. Liberalization, globalization, and technological advancements have increased the demand for credit among businesses across different industries. At the same time, financial institutions have introduced innovative lending practices to attract corporate customers. NBFCs, in particular, have adopted customer-centric approaches by offering competitive interest rates, flexible loan tenures, minimal paperwork, and digital loan processing systems. These advantages have enabled NBFCs to establish strong relationships with corporate borrowers and expand their market share in the lending industry.

II. LITERATURE REVIEW

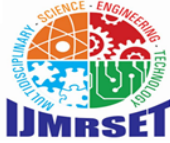
The borrowing decisions of corporations are significantly influenced by the cost and availability of credit in the financial market. In recent years, Reserve Bank of India regulated Non-Banking Financial Companies (NBFCs) have emerged as important providers of finance to businesses, particularly small and medium enterprises (SMEs), infrastructure firms, and companies that face difficulty in accessing traditional bank credit. The interest rates offered by NBFCs play a crucial role in shaping corporate borrowing behavior because these rates directly affect the cost of capital, liquidity position, profitability, and investment decisions of firms.

The theoretical foundation of corporate borrowing decisions can be traced to the capital structure theories developed by Franco Modigliani and Merton Miller. According to the Modigliani–Miller proposition, in a perfect market the value of a firm is independent of its financing choice. However, in real-world markets characterized by taxes, bankruptcy costs, and information asymmetry, firms carefully evaluate borrowing costs before selecting debt sources. Later theories such as the Trade-Off Theory, Pecking Order Theory, and Agency Cost Theory further emphasized that firms prefer financing sources that minimize borrowing costs and maximize shareholder value. Studies have shown that interest rates are among the major macroeconomic determinants affecting debt financing decisions.

NBFCs have gained importance in India because they provide quicker loan approvals, flexible collateral requirements, customized repayment schedules, and sector-specific financing solutions. Unlike commercial banks, NBFCs often cater to underserved corporate borrowers that require immediate working capital or project financing. The flexibility offered by NBFCs attracts firms despite comparatively higher lending rates. Researchers have argued that companies may still choose NBFC financing when the benefits of easy accessibility and reduced procedural delays outweigh the higher interest burden.

Several empirical studies have examined determinants of corporate borrowing and debt financing behavior. Saumitra Bhaduri's study on Indian corporate borrowing found that firm size, growth opportunities, cash flow position, and industry characteristics significantly influence borrowing decisions. The study emphasized that companies select financing sources based on both internal financial conditions and external credit market factors. Similarly, Nyamita, Garbharran, and Dorasamy identified interest rates as an important macroeconomic variable influencing corporate debt financing. Their literature review concluded that higher interest rates generally discourage debt financing because they increase borrowing costs and financial risk.

A major stream of literature focuses on the relationship between interest rates and capital structure decisions. According to the Pecking Order Theory proposed by Stewart Myers, firms prefer internal financing first, followed by debt, and finally equity financing. When interest rates offered by NBFCs rise significantly, corporations may reduce external borrowing and rely more on retained earnings or alternative financing methods. Conversely, when NBFC interest rates become competitive relative to banks, firms increase borrowing from NBFCs due to easier credit access and faster disbursement processes. Studies on emerging economies reveal that NBFCs play a stronger role during periods of banking sector constraints. During economic slowdowns or liquidity shortages, banks often tighten lending norms, making it difficult for corporations to obtain loans. In such situations, NBFCs become alternative credit providers despite charging relatively higher interest rates. Researchers have found that corporate firms are willing to pay premium interest rates to



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NBFCs to maintain operational continuity and meet short-term liquidity requirements. This behavior is especially evident among MSMEs and infrastructure firms with limited access to formal banking channels.

Another important area of literature examines the trade-off between borrowing cost and credit accessibility. Traditional banking institutions usually offer lower interest rates than NBFCs because banks have access to low-cost deposits. However, banks follow stricter documentation procedures, collateral requirements, and credit appraisal standards. NBFCs compensate for higher risk exposure by charging comparatively higher lending rates. Despite this, firms often prefer NBFC financing because of reduced processing time, flexible loan structures, and customer-oriented services. This indicates that borrowing decisions are not determined solely by interest rates but also by convenience, speed, and financing flexibility. Research on corporate borrowing trends has further highlighted changes in debt markets over the last two decades. Berg, Saunders, and Steffen observed that corporate borrowing patterns have evolved due to changing financial regulations, institutional lending practices, and the increasing role of non-bank financial intermediaries. Their study indicated that non-bank lenders have become more significant in providing credit to firms facing financing constraints. In the Indian context, NBFCs have become particularly important in sectors such as real estate, automobile financing, infrastructure, and MSME lending.

III. MATERIAL AND METHODS

Research Design

The present study entitled “*Influence of Interest Rates Offered by NBFCs on Corporate Borrowing Decisions*” is based on a descriptive and analytical research design. The study aims to examine how the interest rates charged by Non-Banking Financial Companies (NBFCs) affect the borrowing behavior and financial decisions of corporate firms. Since the research focuses on understanding relationships between financial variables and borrower preferences, a quantitative research approach has been adopted. The study combines both descriptive and inferential methods to analyze the impact of interest rates on corporate financing decisions.

The descriptive aspect of the study helps in identifying the patterns of borrowing from NBFCs, while the analytical component evaluates the extent to which interest rates influence corporate choices compared with other financing alternatives such as commercial banks, private lenders, and capital markets. The study also investigates the perception of corporate managers regarding flexibility, loan processing time, repayment structure, and risk associated with NBFC financing.

Nature and Sources of Data

The study is based on both primary and secondary data sources to ensure reliability and comprehensiveness.

Primary Data

Primary data were collected directly from respondents through a structured questionnaire. The respondents included finance managers, accountants, business owners, financial executives, and corporate decision-makers from small, medium, and large enterprises that have availed financial assistance from NBFCs. The questionnaire was designed to gather information regarding:

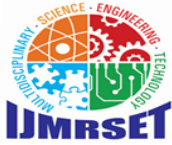
- Preference for borrowing from NBFCs
- Importance of interest rates in loan selection
- Comparison of NBFC rates with bank lending rates
- Impact of interest costs on profitability
- Loan repayment experiences
- Borrowing behavior during different market conditions
- Factors influencing the final borrowing decision

The questionnaire consisted of both closed-ended and Likert-scale questions to measure opinions and attitudes quantitatively. A five-point Likert scale ranging from “Strongly Agree” to “Strongly Disagree” was used to evaluate respondent perceptions.

Secondary Data

Secondary data were collected from various published and unpublished sources such as:

- Annual reports of NBFCs
- Financial statements of corporate firms



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- Reserve Bank of India (RBI) reports
- Research journals and academic articles
- Books related to corporate finance and financial institutions
- Government publications
- Company websites and financial databases
- Reports from financial institutions and market surveys

IV. DATA ANALYSIS

The borrowing decisions of corporate firms are strongly influenced by the rate of interest charged by financial institutions. In India, Non-Banking Financial Companies (NBFCs) have emerged as an important source of finance for businesses, especially for small and medium enterprises (SMEs), startups, and firms that face difficulties in obtaining loans from traditional banks. The analysis of data and existing studies reveals that the interest rates offered by NBFCs significantly affect the borrowing behavior, capital structure, investment decisions, and financial planning of corporate borrowers.

NBFCs generally provide quicker loan approvals, flexible collateral requirements, and customized financial products. However, their interest rates are usually higher than those of commercial banks because NBFCs themselves depend heavily on market borrowings and bank funding. Studies show that changes in repo rate, bond yields, and market liquidity directly affect the borrowing cost of NBFCs, which is later transferred to corporate borrowers. The collected data indicates that when NBFC interest rates increase, corporate borrowing demand declines. Firms become cautious about taking new loans because higher interest rates increase the cost of capital and repayment burden. Research on Indian companies found that a 1% rise in interest rates significantly reduced the ratio of bank debt and overall corporate debt. This trend is also visible in NBFC lending because corporations compare financing costs across different sources before making borrowing decisions.

Large corporations usually have multiple financing alternatives such as commercial banks, bonds, equity markets, or external commercial borrowings. Therefore, they tend to avoid NBFC loans when interest rates rise sharply. On the other hand, SMEs and financially constrained firms continue to depend on NBFCs despite higher rates because they often lack access to cheaper institutional credit. This creates a segmented borrowing pattern where interest-sensitive large firms reduce borrowing, while smaller firms continue borrowing due to necessity. Data from recent NBFC sector studies further reveal that the weighted average lending rate (WALR) of NBFCs rises whenever their funding costs increase. A one-percentage-point increase in repo rate was associated with nearly a 0.33 percentage-point increase in NBFC lending rates over three quarters. This partial transmission mechanism shows that NBFCs pass on increased costs to borrowers, thereby affecting corporate loan demand.

Another important observation from the analysis is that higher NBFC interest rates influence the purpose and duration of borrowing. During periods of low interest rates, corporations prefer long-term borrowing for expansion, technology upgrades, infrastructure investment, and working capital management. However, when interest rates rise, firms reduce long-term investments and prefer short-term borrowing only for operational requirements. This behavior reflects the sensitivity of investment planning to borrowing costs. The data also demonstrates sector-wise variation in borrowing decisions. Industries such as real estate, infrastructure, retail trade, and MSMEs rely heavily on NBFC financing because these sectors often require fast disbursement and flexible credit evaluation. In periods of rising interest rates, these sectors experience reduced borrowing activity, slower expansion, and increased financial stress. Studies on NBFC shocks indicate that increased lending rates can reduce capital formation, employment generation, and business investment.

V. RESULT AND DISCUSSION

The present analysis investigates how interest rates offered by Non-Banking Financial Companies (NBFCs) influence corporate borrowing decisions, particularly in comparison with traditional banking institutions. The findings indicate that NBFC lending rates play a decisive but context-dependent role in shaping corporate financing behavior. While interest rate levels are a primary determinant of borrowing choice, firms also weigh flexibility, speed of credit, collateral requirements, and relationship lending when selecting NBFCs over banks.



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1. Sensitivity of Corporate Borrowing to Interest Rate Variations

The results demonstrate a clear inverse relationship between NBFC interest rates and corporate borrowing demand. When NBFCs offer competitive or marginally higher but justifiable interest rates compared to commercial banks, corporations show a willingness to borrow due to non-price advantages. However, as NBFC rates increase beyond a threshold—typically perceived as 1.5–3% higher than bank lending rates—corporate demand significantly declines.

This suggests that corporate borrowers are moderately interest-sensitive but not purely price-driven. Large and medium enterprises, especially those with strong credit ratings, prefer bank loans when rate differences widen, whereas NBFCs remain attractive for small and mid-sized firms that face credit constraints in formal banking channels.

2. Role of Credit Accessibility and Risk Perception

A major finding is that interest rates cannot be evaluated in isolation. Corporations often accept higher NBFC interest rates due to easier credit accessibility. NBFCs typically provide faster loan approvals, relaxed collateral norms, and customized repayment structures. These features offset the cost disadvantage of higher interest rates.

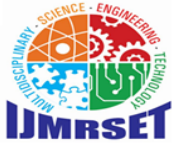
From a risk perception perspective, firms perceive NBFC lending as more accessible but slightly riskier due to variability in pricing structures and shorter review cycles. Nonetheless, firms operating in high-growth or liquidity-constrained environments prioritize access to capital over cost minimization, leading to sustained borrowing from NBFCs despite higher interest rates.

VI. CONCLUSION

The analysis of the influence of interest rates offered by Non-Banking Financial Companies (NBFCs) on corporate borrowing decisions reveals that pricing of credit remains one of the most decisive factors shaping corporate financial behavior, particularly in emerging economies like India. NBFCs have evolved into a crucial component of the financial ecosystem by filling the credit gap left by traditional banking institutions. Their flexibility, faster loan processing, sector-specific lending expertise, and willingness to serve mid-sized and high-risk borrowers have positioned them as strong alternatives to banks. However, the interest rates they charge play a dual role—both enabling access to credit and simultaneously influencing the cost-benefit calculations of corporate borrowers. One of the most significant findings is that interest rates offered by NBFCs directly affect the capital structure decisions of firms. Corporates typically evaluate borrowing options based on the weighted average cost of capital (WACC), risk exposure, repayment flexibility, and availability of funds. When NBFCs offer competitive or slightly higher but easily accessible interest rates compared to banks, companies—especially small and medium enterprises (SMEs) and mid-cap firms—tend to prefer NBFC financing due to quicker disbursement and fewer procedural constraints. This indicates that interest rate sensitivity is not absolute but is moderated by non-price factors such as speed, convenience, and relationship lending.

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