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A Study on Investment Preferences of Young Investors

Runal Shivdayal Patle*, Dr. Ujwala Narkhed**

*(Student, Department of MBA, Wainganga college of engineering and management, Nagpur, Maharashtra, India
Email: rathourvishal472@gmail.com)

** (Professor, Department of MBA, Wainganga college of engineering and management, Nagpur, Maharashtra, India
Email : vaidehi1210@gmail.com)

Abstract:
This study examines how changes in interest rates influence corporate investment decisions in India, with particular attention to the Reserve Bank of India (RBI) policy repo rate during 2020–2025. The period is analytically useful because it contains a sharp pandemic-era easing cycle, a rapid 2022–2023 tightening cycle, a prolonged policy hold during 2024, and a renewed easing phase in 2025. The paper uses an evidence-synthesis methodology based on RBI monetary-policy and banking data, published academic studies, and a financial-ratio framework for assessing profitability, return on assets (ROA), return on equity (ROE), interest coverage ratio (ICR), investment and liquidity. The evidence shows that the repo rate affects firms not only through the direct cost of debt but also through bank lending rates, credit availability, asset prices, expectations and cash-flow conditions. RBI data indicate substantial pass-through from the 250-basis-point tightening between May 2022 and September 2024 to external benchmark-linked rates and to weighted average lending rates, although transmission to outstanding loans was slower. The investment response is therefore heterogeneous: highly leveraged and interest-sensitive sectors such as real estate, infrastructure, capital goods and automobiles are more exposed, while firms with strong internal cash generation or low leverage are less sensitive in the short run. The paper concludes that interest-rate changes materially alter the hurdle rate, financing burden and liquidity position of firms, but investment decisions cannot be explained by the policy rate alone; demand expectations, firm leverage, financial constraints and sector structure also condition the response.

Keywords — interest rates, RBI repo rate, corporate investment, monetary transmission, ROA, ROE, interest coverage ratio, liquidity, India

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I. INTRODUCTION

Interest rates are one of the most important prices in a financial system because they determine the cost of borrowing, the reward to saving, the discount rate applied to future cash flows and, indirectly, the availability of credit. For firms, an interest-rate movement changes the cost of debt capital and can alter the present value of investment projects, the affordability of working capital, debt-service capacity and the attractiveness of alternative uses of cash. Investment decisions are consequently shaped by both the level and the expected path of interest rates.

In India, the policy repo rate is the central operational policy rate through which the Reserve Bank of India (RBI) signals the stance of monetary policy. The transmission from the repo rate to businesses is not instantaneous. It moves through money-market rates, banks' benchmark lending rates, deposit costs, credit supply, corporate bond yields and asset prices. RBI research notes that interest-rate transmission in India has strengthened over time, especially after the adoption of external benchmark-based lending rates (EBLR) for specified categories of loans [1], [2].

The 2020–2025 period provides an unusually clear natural experiment for studying this relationship. The repo rate was reduced sharply during the COVID-19 shock, remained at 4.00 percent through 2021, rose by 250 basis points between May 2022 and February 2023, stayed at 6.50 percent through 2024, and was reduced again in 2025 to 5.25 percent by December [3]–[7]. The net change between the beginning of 2020 and the end of 2025 was small, but the path was highly volatile. A firm that financed itself during the low-rate phase could therefore face a very different refinancing environment later, even if the end-point rate appears similar.

The central research problem is not whether interest rates matter—they clearly do—but how and through which channels they influence investment decisions and financial performance. A higher rate can reduce investment by raising the hurdle rate, yet the effect may be offset where firms have strong internal cash flows, strong pricing power or high growth opportunities. Conversely, even a rate cut may fail to generate immediate capital expenditure when firms face weak demand, excess capacity or elevated uncertainty. Recent Indian evidence using 3,782 non-financial firms finds that both price-based and quantity-based monetary policy affect

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corporate investment and that firm-specific characteristics condition the strength of transmission [8].

This paper therefore combines the macro policy-rate path with the corporate-finance mechanisms that connect financing costs to profitability, ROA, ROE, ICR, investment and liquidity. The focus is India, and the period is 2020–2025. The study is designed as a descriptive-analytical secondary-data research paper rather than as a new causal econometric estimation.

II. OBJECTIVES

The objectives of the study are: (1) to trace the movement of the RBI policy repo rate from 2020 to 2025; (2) to explain the major interest-rate transmission channels relevant to firms; (3) to assess how changes in interest rates can affect profitability, ROA, ROE, ICR, investment and liquidity; (4) to compare the likely sensitivity of major sectors in the Indian economy; and (5) to derive managerial implications for financing and investment planning under changing interest-rate conditions.

The study addresses three research questions: (a) how quickly and strongly did changes in the RBI repo rate transmit to bank lending rates during 2020–2025? (b) through which financial mechanisms can those changes alter corporate investment decisions? and (c) why do the effects differ across firms and sectors?

III. LITERATURE REVIEW

A. Interest-Rate and Credit Channels

Classical monetary-transmission theory argues that a policy-rate increase raises market interest rates, which increases the cost of borrowing and reduces interest-sensitive expenditure. Mishkin [9] organizes monetary transmission into interest-rate, asset-price and credit channels. Bernanke and Gertler [10] emphasize that monetary tightening can also raise the external finance premium through balance-sheet and bank-lending effects. In practice, the credit channel matters because firms that depend heavily on external finance are unable to replace bank credit with internal funds immediately.

The Indian context adds a bank-dominated transmission mechanism. RBI research has documented that policy changes first influence short-term financial-market rates and then bank deposit and lending rates, with the eventual effect on real activity occurring with a lag [1]. The strength of transmission also depends on liquidity conditions, the structure of bank liabilities, competition, loan repricing conventions and the share of floating-rate loans.

B. Evidence on Monetary Policy and Corporate Investment

Empirical research generally finds that corporate investment responds to monetary policy, but the sensitivity varies with firm characteristics. A firm-level Indian study by Bagow and Altaf [8], covering 3,782 non-financial firms and 45,238 observations over 2000–2023, reports significant effects of both price-based and quantity-based monetary policy on corporate investment. The authors also find that firm-specific factors constrain transmission and that the pattern appears in both manufacturing and non-manufacturing sectors.

Earlier work on India also shows that a contractionary monetary policy can alter corporate debt behaviour, particularly for listed firms and firms with different leverage profiles [11]. This supports the view that financing structure is a key conditioning variable: the same policy-rate shock need not produce the same investment response in two firms with different debt maturity, cash-flow generation or access to capital markets.

C. Profitability, Financial Performance and Heterogeneity

Interest-rate effects on profitability are mechanically linked to the income statement. When interest expense rises faster than operating profit, profit before tax and profit after tax fall. This can reduce ROA and ROE and, more directly, the ICR. The effect is larger for firms with high debt and floating-rate exposure. Conversely, lower rates can improve profit margins and debt-service capacity, provided that lower financing costs are actually passed through to the firm and demand conditions remain supportive.

Recent RBI analysis shows that during the tightening cycle from May 2022 to September 2024, the repo rate rose by 250 basis points; fresh-loan WALR increased by about 186 basis points and outstanding-loan WALR by about 118 basis points. Over the same period, fresh and outstanding term-deposit rates also increased materially [2], [4]. This confirms that the policy signal was transmitted into firms' financing conditions, although outstanding-loan transmission was slower than transmission to fresh loans.

D. Research Gap

A major gap in applied student-level research is the tendency to treat the repo rate as if it were identical to the borrowing rate faced by every firm. The literature instead suggests a multi-stage process: policy rate, market rates, bank or bond funding costs, firm-level interest expense and finally operating and investment outcomes. This paper addresses that gap by combining the repo-rate timeline with a ratio-based corporate-finance framework and sectoral evidence rather than attributing all observed investment changes directly to the repo rate.

IV. RESEARCH METHODOLOGY

The study adopts a descriptive-analytical and evidence-synthesis design. The primary macroeconomic variable is the RBI policy repo rate. Supporting transmission variables include weighted average lending rates (WALR), external benchmark-linked lending rates (EBLR), one-year median MCLR and weighted average domestic term deposit rates (WADTDR), obtained from RBI publications. Sectoral evidence is drawn from RBI data on the deployment of bank credit and from peer-reviewed research on Indian corporate investment.

The observation window is January 2020 to December 2025. The paper divides the period into four economically

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meaningful phases: the COVID-era easing phase (2020–2021), the tightening phase (2022–2023), the high-rate holding phase (2024), and the renewed easing phase (2025). For corporate outcomes, the analysis uses standard financial ratios: ROA = Profit After Tax / Average Total Assets; ROE = Profit After Tax / Average Shareholders' Equity; ICR = EBIT / Interest Expense; Current Ratio = Current Assets / Current Liabilities; and an investment-intensity measure based on capital expenditure relative to asset size or sales, depending on the firm's reporting structure.

The analytical logic is directional rather than a new econometric causal estimate. In simplified form, the investment decision can be represented as Investment = f(Cost of Debt, Cost of Equity, Expected Cash Flow, Growth Opportunities, Credit Availability, Uncertainty, and Firm Leverage). The expected sign of the direct interest-rate effect is negative when rates rise, but the total effect can be smaller, delayed or temporarily ambiguous when cash flows, demand or access to credit change at the same time.

A limitation of this methodology is important for interpretation: this paper does not estimate an original firm-level regression over 2020–2025. It synthesizes published empirical findings and RBI evidence and uses financial-ratio mechanics to explain the transmission to corporate decisions. Therefore, the findings should be read as evidence-based analytical conclusions, not as new causal coefficients.

V. RBI REPO RATE DATA (2020–2025)

The repo-rate path is summarized below. The table records the year-end rate and the material in-year changes. The sequence illustrates a strong easing phase in 2020, a prolonged low-rate plateau in 2021, an aggressive tightening cycle in 2022–2023, a 6.50 percent hold in 2024, and a renewed easing cycle in 2025.

TABLE I. RBI POLICY REPO RATE PATH, 2020–2025

Year	Key rate change(s)	Year-end repo rate
2020	5.15% → 4.40% (27 Mar); → 4.00% (22 May)	4.00%
2021	No policy change	4.00%
2022	4.00% → 4.40% → 4.90% → 5.40% → 5.90% → 6.25%	6.25%
2023	6.25% → 6.50% (8 Feb); then unchanged	6.50%
2024	No policy-rate change	6.50%
2025	6.50% → 6.25% (Feb) → 6.00% (Apr) → 5.50% (Jun) → 5.25% (Dec)	5.25%

RBI records show that the repo rate fell from 5.15 percent in early 2020 to 4.00 percent after the pandemic cuts. It remained at 4.00 percent throughout 2021. The tightening cycle began in May 2022 and ultimately lifted the repo rate to 6.50 percent by February 2023; the rate remained there through 2024 [3]–[6]. In 2025, the MPC cut the repo rate by 25 basis points in February, 25 basis points in April, 50 basis points in June and 25 basis points in December, taking the rate to 5.25 percent [7], [12].

The key analytical point is that annual end-point rates hide substantial within-year movements. For investment decisions, the timing of the movement matters because project appraisal, refinancing and working-capital decisions are made continuously. A company that commits capital at a 4.00 percent policy-rate environment may face a very different weighted average cost of capital if its debt reprices after the 2022–2023 tightening cycle.

VI. INTEREST-RATE TRANSMISSION CHANNELS

A. Policy-Rate to Money-Market Channel

The first step is transmission from the repo rate to short-term money-market rates. Changes in the policy rate influence the operating target of monetary policy and the broader short-term rate curve. During periods of surplus liquidity, market rates may not move one-for-one with the policy signal; when liquidity tightens, transmission to overnight and other money-market rates can be stronger [1], [13].

B. Bank Lending-Rate Channel

Banks transmit the policy signal through EBLR, MCLR and other pricing frameworks. The importance of EBLR-linked loans has increased, making some floating-rate borrowers more sensitive to changes in the policy rate. RBI data show that during May 2022 to September 2024, the EBLR increased by the full 250 basis points corresponding to the policy-rate increase, while WALR increased by 186 basis points on fresh loans and 118 basis points on outstanding loans [2], [4]. The difference between fresh and outstanding loans demonstrates the role of repricing lags and legacy fixed-rate contracts.

C. Credit-Supply Channel

A rate increase can reduce credit demand, but it can also affect the supply side by changing banks' funding costs, capital allocation incentives and borrower risk. Bernanke and Gertler [10] describe this as the bank-lending and balance-sheet channel. For firms that rely on bank finance, tighter credit standards can reinforce the effect of a higher borrowing rate. The 2025 RBI sectoral credit data, for example, show non-food bank credit growth moderating to 12.0 percent year-on-year in March 2025 from 16.3 percent a year earlier, even though credit to some industries continued to expand [14].

D. Asset-Price and Cost-of-Capital Channel

Higher interest rates increase the discount rate used to value future cash flows. Even when a firm uses little debt, its equity valuation and cost of capital can still be affected. A higher required rate of return lowers the present value of long-duration projects and can delay investment until expected returns are sufficiently high. This is particularly important for projects with long gestation periods and high irreversibility.

E. Exchange-Rate and External-Finance Channel

Interest-rate differentials can influence capital flows and the exchange rate, which in turn affects firms with imported inputs or foreign-currency liabilities. The effect is ambiguous at firm level: a tighter domestic stance can support the currency under some conditions, lowering imported input costs, but higher financing costs may dominate for leveraged

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firms. The sign therefore depends on the firm's trade and financing exposure.

F. Expectations and Uncertainty Channel

Firms invest based on expected future demand as well as the current interest rate. Monetary-policy communication can therefore matter independently of the mechanical rate change. Research on corporate investment under uncertainty finds that high uncertainty can weaken the responsiveness of firms to policy-rate changes because firms choose to wait for clearer information before committing to irreversible capital expenditure [15].

VII. IMPACT ON PROFITABILITY, ROA, ROE, ICR, INVESTMENT AND LIQUIDITY

The financial consequences of interest-rate changes can be summarized through a set of linked corporate indicators. The table below gives the direction of the relationship and the managerial interpretation. These relationships are expected mechanisms, not claims that every firm will display the same numerical response.

TABLE II. CORPORATE FINANCIAL EFFECTS OF INTEREST-RATE MOVEMENTS

Indicator	Definition / meaning	When rates rise
Profitability	PAT, EBITDA or operating margin	Interest expense can rise and reduce PAT; pressure is stronger for leveraged firms
ROA	PAT / average total assets	Falls when higher interest expense reduces earnings faster than assets adjust
ROE	PAT / average equity	Often falls when debt costs reduce PAT; leverage can amplify the effect
ICR	EBIT / interest expense	Falls mechanically if interest expense rises while EBIT is unchanged
Investment	Capex / assets or sales	Higher hurdle rate can defer marginal projects; credit tightening can reinforce the effect
Liquidity	Current assets / current liabilities; cash buffer	Cash interest and refinancing needs can drain liquidity

A. Profitability

The most immediate accounting effect of a rate increase is usually higher finance cost. If EBIT is unchanged, an increase in interest expense reduces profit before tax and profit after tax. The impact is largest when debt carries floating rates or when short-term debt must be rolled over. The effect can be partly offset by pricing power, cost savings or higher yields on interest-earning financial assets. RBI evidence during the 2024 tightening environment indicated that profit margins of manufacturing companies moderated, while IT companies maintained operating margins partly through cost rationalisation [4], illustrating that operating response matters alongside financing costs.

B. Return on Assets (ROA)

ROA captures the return generated by the asset base. A higher interest expense reduces net income, so ROA generally declines for debt-financed firms unless operating earnings increase enough to absorb the additional financing cost. A cut in interest rates can improve ROA over time by reducing finance costs, but the effect is not automatic because weak demand can simultaneously reduce profits. ROA is therefore more informative when examined alongside operating margins and asset utilisation.

C. Return on Equity (ROE)

ROE is influenced by leverage, making the interest-rate relationship more complex than the ROA relationship. During low-rate periods, debt can magnify ROE when projects generate returns above the cost of debt. During high-rate periods, the same leverage can reverse the effect and reduce shareholder returns because the interest burden absorbs a larger share of operating profit. Consequently, the interaction between leverage and the spread between operating return and debt cost is more important than the policy rate alone.

D. Interest Coverage Ratio (ICR)

ICR is especially sensitive to interest-rate changes because the denominator is interest expense. For a firm with stable EBIT, a 20 percent rise in interest expense causes a direct fall in the ratio. A low ICR limits financial flexibility, raises refinancing risk and can trigger tighter lender monitoring. Earlier IMF analysis of the Indian corporate sector showed that interest-rate stress can materially increase the number of firms with weak coverage ratios, especially among highly leveraged firms [16].

E. Investment Decisions

Investment responds through at least three mechanisms. First, the user cost of capital rises, so fewer projects satisfy the required return. Second, the present value of future cash flows falls as the discount rate rises. Third, bank-credit constraints can prevent firms from implementing even projects that remain economically attractive. This is why the response is heterogeneous: firms with large cash balances may continue investing, while financially constrained firms cut or postpone expenditure. The Indian firm-level evidence in [8] is consistent with this multi-channel view.

F. Liquidity

Liquidity can deteriorate under higher rates because cash interest payments increase, short-term refinancing becomes more expensive and banks may tighten credit conditions. Firms with long-duration fixed-rate debt are better insulated in the short run, while firms dependent on short-term floating-rate borrowing face quicker cash-flow pressure. Conversely, lower rates can support liquidity by reducing debt-service costs, but an aggressive build-up of cash is not automatically

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optimal if it reflects weak investment opportunities rather than prudent liquidity management.

VIII. SECTOR-WISE IMPACT

Interest-rate sensitivity differs across sectors because financing structures, asset duration, demand elasticity, working-capital needs and investment irreversibility vary. RBI sectoral credit data provide evidence that credit dynamics are already heterogeneous. In March 2025, industry credit grew 8.0 percent year-on-year; within major industries, petroleum and coal products, basic metals, engineering and construction recorded accelerated credit growth, while infrastructure credit growth decelerated [14]. This illustrates that sectoral outcomes cannot be inferred from the policy rate alone.

TABLE III. SECTOR-WISE SENSITIVITY TO INTEREST-RATE CHANGES

Sector	Sensitivity	Main transmission / likely investment effect
Real estate / construction	High	Debt cost and buyer financing; project launches and acquisition plans can be delayed
Infrastructure / capital goods	High	Long gestation and leverage; stricter project screening and refinancing management
Automobiles / consumer durables	High	Retail credit and demand sensitivity; higher EMIs can weaken capacity plans
Manufacturing	Medium–High	Debt, working capital and inventory; capex depends on leverage plus demand
Pharma	Low–Medium	R&D financing and long-duration valuation; strategic projects may be more resilient
IT / business services	Low–Medium	Lower debt intensity but higher sensitivity through discount rates and valuation
FMCG / consumer staples	Low–Medium	Working capital and demand effects; smaller direct debt-cost exposure
Banks / NBFCs	Two-sided	Margin benefit can be offset by weaker credit demand, funding costs and asset quality

A. Real Estate and Construction

Real estate has a high interest-rate sensitivity because both developers and customers rely heavily on financing. A rate increase can raise developer borrowing costs while also increasing mortgage payments for households. The combined effect can slow project absorption and lead firms to phase or defer new launches. Construction firms may therefore preserve liquidity by reducing the number of simultaneous projects during tightening periods.

B. Infrastructure and Capital Goods

Infrastructure and capital-goods projects generally have long gestation periods, substantial upfront investment and significant debt requirements. Higher discount rates can reduce the present value of project cash flows, and refinancing risk becomes material when debt maturities are concentrated. At the same time, government-led capital expenditure can offset part of the private-finance channel, so the sector response depends on the source and structure of project funding.

C. Automobiles and Consumer Durables

These sectors are influenced by both corporate financing and consumer credit. Higher rates can raise financing costs for inventories and working capital, while more expensive vehicle or consumer-durable loans can reduce demand. The rate effect therefore operates through both the supply side and the demand side.

D. Manufacturing

Manufacturing is heterogeneous. Capital-intensive firms with large debt balances are more exposed, while asset-light manufacturers may rely more on internal funds. RBI data in 2023–2025 show that credit growth differed meaningfully across engineering, chemicals, textiles, metals, infrastructure and other subsectors [14], [17]. Consequently, sector averages can conceal material differences at firm level.

E. IT, Pharmaceuticals and Consumer Staples

IT and pharmaceuticals often carry lower debt intensity than infrastructure or real estate, which reduces the direct sensitivity of interest expense. However, the cost-of-equity and valuation channels still matter because a higher discount rate can reduce the present value of long-duration growth. Consumer staples are generally less exposed to borrowing costs but can still experience secondary effects through working capital, inventory finance and consumer purchasing power.

F. Banks and NBFCs

Financial intermediaries have a two-sided relationship with interest rates. A rate increase can initially improve interest income or net interest margins for some banks when asset repricing is faster than deposit repricing. Over time, however, higher rates can weaken loan demand, increase borrower stress and raise credit costs. For NBFCs, the transmission can be relatively direct through borrowing costs and lending rates; recent research documents rate and credit transmission to NBFCs as well [18].

IX. FINDINGS AND DISCUSSION

Finding 1: The 2020–2025 rate path was highly non-linear. The repo rate ended 2025 only slightly above the early-2020 level, but the interim movement from 4.00 percent in 2021 to 6.50 percent in 2023–2024 materially changed financing conditions. This means investment analysis based only on end-point rates can miss the effect of refinancing and repricing during the intervening years.

Finding 2: Monetary transmission to lending rates is significant but lagged. RBI estimates show a 250-basis-point rise in the policy repo rate during the tightening cycle was accompanied by roughly 186 basis points of increase in fresh-loan WALR and 118 basis points in outstanding-loan WALR by September 2024 [2], [4]. The stronger response in fresh loans demonstrates that new investment and refinancing decisions can become expensive faster than the average cost of an existing loan book.

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Finding 3: The effect on investment is amplified by leverage and financial constraints. Firms with high debt, short maturities and weak internal cash generation are more exposed because the same rate shock produces a larger increase in interest expense and a larger fall in interest coverage. This is consistent with the Indian firm-level literature, which finds that firm-specific factors condition monetary-policy transmission [8], and with earlier evidence that corporate debt behaviour responds to monetary tightening [11].

Finding 4: Lower rates do not guarantee an immediate investment boom. The 2020–2021 easing occurred during exceptional uncertainty and disrupted demand, while the 2025 easing took place alongside a changing growth and inflation environment. This shows that financing cost is only one component of investment. Expected demand, capacity utilisation, project risk, cash flows and management expectations can dominate a marginal rate change.

Finding 5: Sector heterogeneity is material. RBI credit data show that some industrial segments and services continued to record strong credit growth even as overall credit growth moderated [14], [17]. Therefore, a one-size-fits-all interest-rate sensitivity assumption is inappropriate. Sector cash cycles, leverage and project duration should be incorporated into investment appraisal.

Finding 6: The most useful corporate response is balance-sheet management rather than rate prediction. Because policy rates are uncertain and transmission is imperfect, firms cannot reliably base long-lived capital allocation decisions on a single expected repo-rate path. A better approach is to stress-test projects under multiple rate scenarios and assess the resulting ICR, cash-flow coverage and liquidity buffers.

X. MANAGERIAL IMPLICATIONS

First, investment committees should evaluate projects using a range of discount rates rather than one point estimate. Projects with small positive NPVs at the base rate should be subjected to a higher-rate stress case before capital is committed. This is especially important for long-gestation assets where financing and operating conditions may change before cash flows are realized.

Second, treasury teams should actively manage debt maturity and repricing exposure. Where commercially feasible, firms can combine fixed-rate and floating-rate borrowing, stagger maturities, refinance ahead of large rollover dates and maintain committed liquidity facilities. The objective is not to eliminate interest-rate exposure but to prevent a temporary rate shock from creating a permanent investment disruption.

Third, management should monitor ICR and liquidity alongside ROE. ROE can remain superficially attractive when leverage is high, even while debt-service risk is increasing. ICR and cash-flow metrics provide earlier warning of financial stress. A falling ICR during a tightening cycle should trigger review of capex, dividends, buybacks and working-capital commitments.

Fourth, sector-specific pricing and investment rules are preferable to a uniform hurdle-rate policy. Real-estate or infrastructure projects may require stronger downside buffers than asset-light service businesses. Similarly, financial institutions should evaluate both margin benefits and potential credit-quality deterioration when rates rise.

Finally, managers should distinguish between a temporary policy move and a durable change in the cost of capital. RBI transmission data show that the rate change reaches new loans faster than existing loans. This makes refinancing schedules and contractual repricing terms important inputs into planning, not merely the headline repo rate.

XI. LIMITATIONS

The study has five principal limitations. First, it does not build a new matched panel of firm-level financial statements for every sector over 2020–2025, so it does not estimate a new causal coefficient linking the repo rate to capex. Second, the policy repo rate is a common macro variable, whereas firms borrow at rates that depend on credit quality, loan type, benchmark, collateral and bargaining power. Third, sector categories contain firms with very different leverage and business models. Fourth, the year-end repo rate does not capture within-year effective borrowing conditions. Fifth, other macro variables—growth, inflation, exchange rates, commodity prices, fiscal policy and global interest rates—also changed during the study period. The findings should therefore be interpreted as evidence-based directional conclusions rather than as isolated interest-rate effects.

XII. CONCLUSION

Interest rates influence investment decisions through more than the simple cost of borrowing. In the Indian context, the repo rate is transmitted through money markets, bank lending rates, credit conditions, asset prices and expectations. During 2020–2025, India experienced both extreme easing and rapid tightening, creating a clear demonstration of how financing conditions can change the viability of corporate projects. RBI evidence shows substantial pass-through to lending rates, while academic evidence shows that corporate investment responds to monetary policy but that firm-specific characteristics condition the size of the effect [2], [8].

The financial-ratio implications are equally important. Higher financing costs can reduce profitability, ROA and ROE, weaken ICR and constrain liquidity, especially when leverage is high and debt reprices quickly. The investment effect is strongest for sectors with long-duration assets, high leverage or strong dependence on customer financing. Yet the response is not mechanical: internal cash generation, demand expectations, capacity utilisation and uncertainty can moderate or even temporarily reverse the direct rate effect.

For managers, the practical conclusion is to treat interest rates as a scenario variable rather than as a single forecast. Capital expenditure should be tested against higher financing costs, liquidity buffers should be designed around refinancing risk, and sector-specific sensitivity should be incorporated into

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project appraisal. In this way, investment decisions remain robust even when the monetary-policy cycle changes direction.

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