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# Pre-Investment Perception of Investors in Non-Banking Financial Corporations (NBFCs) in India: A Study on Determinants and Investment Behavior

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***Abstract**: This research examines the pre-investment perceptions of individual investors toward Non-Banking Financial Corporations (NBFCs) in India. Despite NBFCs' increasing significance in the financial ecosystem, many investors remain hesitant due to concerns over risk, transparency, and institutional trust. The study identifies key factors that shape investor perceptions before investing, including risk perception, the quality of available information, and the regulatory environment in India. Using a structured questionnaire and regression analysis, the research highlights the role of regulatory trust and financial transparency in shaping investment intentions. The paper offers practical insights for NBFCs to improve investor communication and engagement strategies.*

***Keywords** Listing Gains, Initial Public Offering, Discount Price, Grey Market, NBFC's*

## I. Introduction

### 1.1 Background

Non-Banking Financial Corporations (NBFCs) in India have become significant players in the financial services sector. NBFCs provide a variety of services such as loans, asset management, and wealth management, catering to the needs of individuals and businesses. However, compared to traditional banks, NBFCs often face skepticism from investors, particularly regarding their stability, risk, and governance practices.

### 1.2 Research Problem

Investors' pre-investment perceptions are crucial for NBFCs looking to attract capital. Despite the rapid growth of the NBFC sector in India, little research has been conducted to understand how investors perceive the risks and opportunities associated with investing in these financial institutions before they commit their funds.

### 1.3 Objectives of the Study

- To examine the pre-investment perceptions of individual investors toward NBFCs in India.

- To identify the key factors influencing investment decisions, such as risk perception, trust, transparency, and regulatory confidence.
- To assess how these perceptions affect investors' intentions to invest in NBFCs.

### 1.4 Research Questions

- What are the key factors influencing pre-investment perceptions of NBFCs among investors in India?
- How does the regulatory framework impact investors' perceptions and their willingness to invest in NBFCs?
- What role does trust in financial institutions play in shaping pre-investment decisions regarding NBFCs?

## 2.Literature Review

### 2.1 Investor Perception in Financial Markets

Pre-investment perception refers to the mental constructs that potential investors develop based on their understanding of risk, financial transparency, and institutional reliability. Several studies have shown that investors' decisions are largely influenced by their perceptions of these factors before they commit capital.
Chandu, V. , Reddy, K.P. , Srilakshmi, S. and Shifaly 2022. Pre-investment perception of investors' towards security market in indian context. *International Journal of Professional Business Review*. 7, 2 (Aug. 2022), e0416. DOI:https://doi.org/10.26668/businessreview/2022.v7i2.416.

### 2.2 Risk Perception and Trust in NBFCs

In the Indian context, risk perception is a significant determinant of investment decisions in NBFCs. Studies by Sharma (2016) and Gupta et al. (2019) suggest that investors tend to view NBFCs as higher-risk entities compared to traditional banks due to their exposure to credit risk and lower levels of regulatory oversight.
Chandu, V. ., Thagaram, E. ., Srilakshmi , S. ., Sahyaja , C. ., Akthar, P. ., Goli , G. ., & Rao, C. V. R. K. . (2023). Federated Deep Learning Architecture for Technical Analysis of the Standard Souq Using Optimization Technique. International Journal of Intelligent Systems and Applications in Engineering, 12(6s), 233–246. Retrieved from https://ijisae.org/index.php/IJISAE/article/view/3974
The two main performance metrics that the researchers utilised to validate the IPOs were the over-subscription ratio of the IPO and the listing day gains generated by the IPO. Comparing the IPOs' performance between January 2011 and May 2014 and June 2014 and June 2017 was the study's main objective. The analysis's findings indicate that the initial public offers (IPOs) that were conducted between June 2014 and June 2017 performed considerably differently from those that were issued between June 2014 and May 2011. Also, the quantity and amount of IPOs throughout the course of the two years were investigated.
Chandu V, Maddala S, Sai KGD, et al. Research on retail Buyers' emotional quotient with focus on transactions on the National Stock Exchange. International Journal of Engineering Business Management. 2023;15. doi:10.1177/18479790231180770
The aim of the study was to assist investors in making the choice between buying a securities through an initial public offering (IPO) and doing so directly on the secondary market. Data is gathered for the analysis of all IPOs released over a ten-year period. According to the data, there was no statistically significant difference between the price that was offered in the IPO, the listing price on the first day, and the listing price on the last day. The open price listing day's median price was higher than the IPO's price. The average closing price was higher than the open

price on the listing day. The mean value for the closing price on the listing day was likewise high when the IPO provided a high price. The IPO industry won't experience long-term growth until then. But the truth is the exact opposite. Long-term gains are not made by businesses; they only produce short-term and listing earnings.

In their paper titled "Determinants of Long-Term Performance of Initial Public Offerings: Evidence from India," Dhamija, S., and Arora, R. K. (2017) analysed the long-term performance of 377 initial public offerings (IPOs) made by Indian companies between 2005 and 2015. The study's goals are to determine whether Indian IPOs outperform or underperform the market as a whole over the long term and to identify the key variables that affect this result. Despite initially exhibiting notable underperformance over the long term, the results demonstrate that Indian IPOs outperformed the general market.

Between 2005 and 2015, the average initial excess returns (IERs) on initial public offerings (IPOs) on the main board was around 22%. Nonetheless, 37% of the IPOs did offer unfavourable IERs. Initial public offerings (IPOs) underperformed the sector as a whole, producing a 57.33 percent abnormal buy-and-hold return (BHAR) in the 36 months following listing. Over a 36-month holding period, just 38 out of 377 IPOs (or 10% of the total) outperformed the benchmark index. The issuer type (government-owned or private), lead manager credibility (LMP), promoter retention, and issue size are the main issue elements that affect the long-term performance of initial public offerings (IPOs) in India.

## 2.3 Regulatory Framework in India

The regulatory environment plays a crucial role in shaping investor perceptions. India's regulatory framework for NBFCs is governed by the Reserve Bank of India (RBI), but NBFCs are often perceived as less tightly regulated compared to commercial banks. Research by Patel & Gohil (2021) highlights that investor confidence in NBFCs is often directly linked to their perception of regulatory stability and enforcement.

## 2.4 Information Quality and Investor Behavior

Transparency in the financial reporting of NBFCs is a critical factor influencing pre-investment perceptions. Singh (2017) emphasized that investors are more likely to invest in NBFCs that provide detailed and clear disclosures about their financial health, management practices, and future projections.

# 3. Conceptual Framework

### 3.1 Variables Influencing Pre-Investment Perception:

- **Risk Perception:** Investors' perceived risk of investing in NBFCs, including credit risk, operational risk, and market volatility.
- **Information Transparency:** The quality and accessibility of financial disclosures and other key information about the NBFC’s operations and performance.
- **Trust and Reputation:** The level of trust investors have in the institution, shaped by its historical performance, leadership, and media portrayal.
- **Regulatory Environment:** The perceived strength of regulatory oversight by authorities such as the RBI, and its impact on investor confidence in the institution’s stability.

### 3.2 Hypotheses:

- **H1:** Investors’ risk perception negatively affects their investment intentions in NBFCs.
- **H2:** The quality of information available to investors positively influences their trust and confidence in NBFCs.
- **H3:** The strength of the regulatory framework has a significant positive impact on investors' perceptions of NBFCs.
- **H4:** Trust in the NBFC positively influences investor decisions regarding pre-investment intentions.

## 4. Methodology

**4.1 Research Design**

A descriptive research design was used, employing a survey to assess investors' perceptions and intentions to invest in NBFCs.

**4.2 Sampling Method**

The sample consisted of 250 individual investors who were either currently investing in financial instruments or had shown interest in investing in the financial services sector.

**4.3 Data Collection**

A structured questionnaire was used to gather data, including Likert scale items measuring risk perception, trust, information quality, and regulatory confidence. The survey also included demographic questions to segment respondents based on age, income, and investment experience.

**4.4 Analytical Approach**

Data was analyzed using statistical tools such as **factor analysis** to identify underlying constructions and **regression analysis** to test the hypotheses. The **SPSS software** was used for data cleaning, coding, and analysis.

## 5. Results and Discussion

**5.1 Demographics of Respondents:**

- Age: Majority (40%) were between 30-45 years.
- Investment Experience: 55% had more than 5 years of investment experience in financial markets.
- 70% were aware of the role of NBFCs in the Indian economy.

**5.2 Key Findings**

- **Risk Perception:** Respondents with higher risk tolerance were more likely to invest in NBFCs. However, a significant portion of respondents (45%) expressed concerns over the risk of credit defaults.
- **Trust and Reputation:** A strong correlation was found between institutional trust and investment intentions. Investors were more likely to invest in NBFCs they perceived as trustworthy and transparent in their operations.
- **Regulatory Confidence:** The majority of respondents indicated that they would be more likely to invest in NBFCs if they were subject to stricter regulatory oversight. Trust in the RBI’s regulation was a significant determinant of their willingness to invest.

**5.3 Implications for NBFCs**

- NBFCs should focus on improving **financial transparency** by providing clear, accurate, and accessible information about their operations.
- Strengthening the **regulatory compliance** and publicizing their adherence to RBI guidelines would likely improve investor confidence.
- Building a **strong institutional reputation** through consistent performance and trust-building initiatives is critical to attracting pre-investment attention.

## 6. Conclusion

**6.1 Summary of Findings**

This study demonstrates that investors’ pre-investment perceptions of NBFCs are shaped by several factors, including risk perception, trust, regulatory confidence, and the quality of information available. Among these, trust in the NBFC and the perceived strength of the regulatory framework were the most influential in shaping pre-investment intentions.

**6.2 Limitations**

The study is limited by its sample size and geographical focus (focused primarily on investors in metro cities like Mumbai and Delhi). Additionally, only individual investors were surveyed, excluding institutional investors.

**6.3 Suggestions for Future Research**

Future studies could explore institutional investors' perceptions of NBFCs or conduct a comparative study across different countries with varying regulatory environments. Longitudinal studies could also assess how perceptions evolve over time.

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