Recent developments in India's corporate & commercial laws

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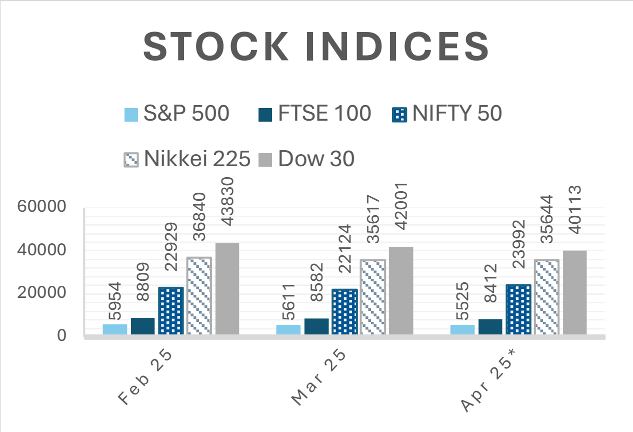
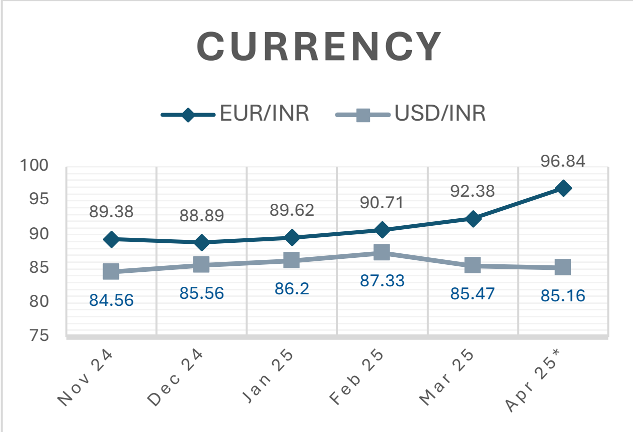
Indian economy

Snapshot of key economic indicators | April 2025



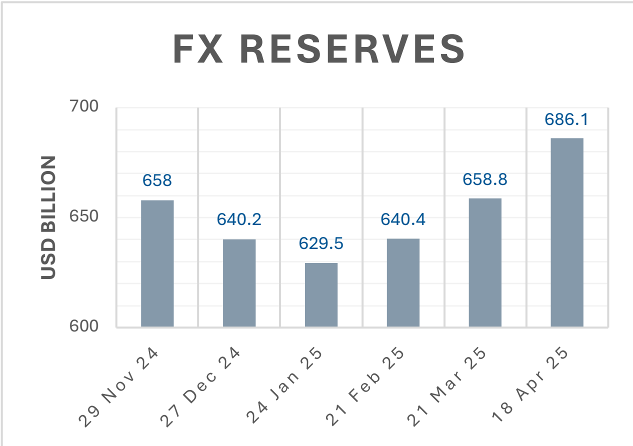
Source: S&P Dow Jones, FTSE Russel, NSE, and Nikkei



Source: Reserve Bank of India

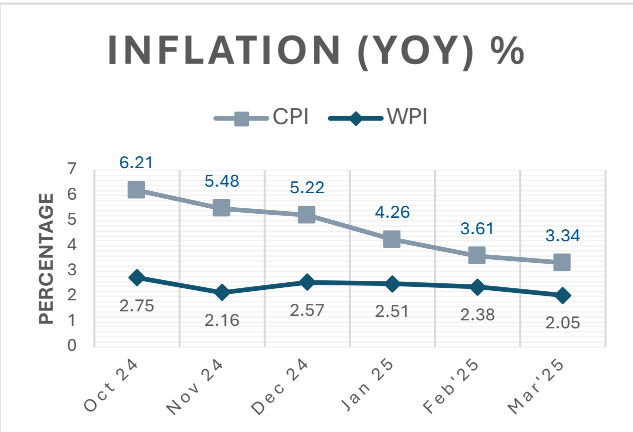
Source: Ministry of Commerce and Industry

Coffee, tobacco, and electronic goods were the major drivers of merchandise export in FY 2024-25



Source: Reserve Bank of India

FX reserves rose for the 7th consecutive week reaching a 6-month high

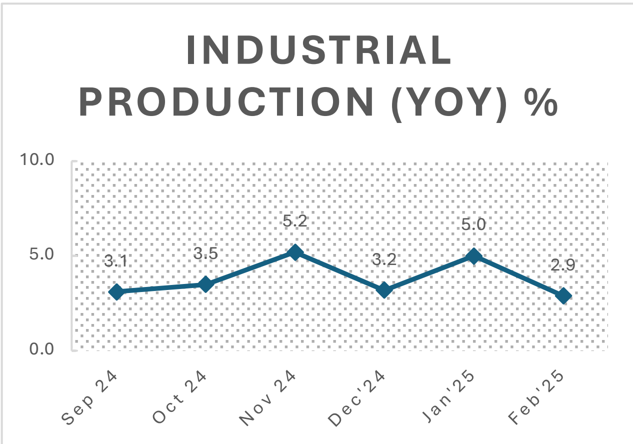


Source: Ministry of Statistics and Programme Implementation

Core inflation crossed 4% for the first time in 14 months in February 2025

March 2025 witnessed the lowest CPI inflation rate since August 2019

Highest inflation in March 2025 was seen in coconut oil (56.81%), coconut (42.05%), gold (34.09%), silver (31.57%), and grapes (25.55%)



Source: Ministry of Statistics and Programme Implementation

The Manufacturing PMI (Purchasing Manager's Index) rose to 58.4, an 8-month high in April 2025, following a 14-month low in February 2025

The top 3 positive contributors for February 2025 were basic metals (5.8%), motor vehicles, trailers and semi-trailers (8.9%), and non-metallic mineral products (8.0%)

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* As per latest available data for April 2025

US ‘Liberation Day’ tariffs

Impact of ‘discounted tariffs’ on Indian industry sectors

On April 2, 2025, a day proclaimed by US President Donald Trump as ‘Liberation Day’, a sweeping set of reciprocal tariffs was rolled out to target countries with sustained trade surpluses. While the move affects global trade flows, its impact on India is nuanced – offering both risks and selective opportunities depending on the sector and competitive dynamics.

Timeline of key events

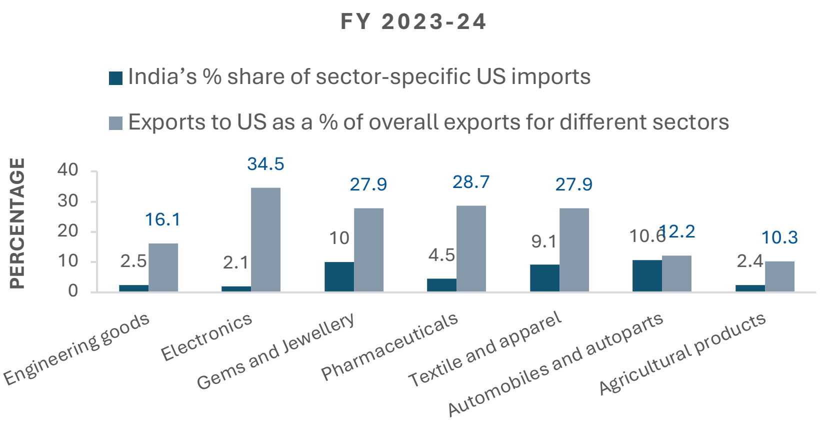
- January to March 2025: The US administration signals a strategic shift toward trade ‘reciprocity’ under its ‘Make America Wealthy Again’ doctrine.
- April 2, 2025: US implements a reciprocal tariff structure, imposing 26–27% tariffs on imports from countries with persistent trade surpluses with the US. Key sectors include automobiles, steel, electronics, and apparel.
- April 3 to 15, 2025: India initiates consultations to seek clarity and exemptions on sensitive categories and proposes discussions toward a limited bilateral trade framework.
- April 13, 2025: The US announces exemptions on laptops, computers, and smartphones while maintaining a 20% tariff on China.
- Ongoing (as of mid-April 2025): The new tariff structure prompts a global re-routing of trade flows, opening competition-based realignments.

India – US trade

USA is India’s largest export destination, accounting for 17.7% of India’s overall exports in FY 2023-24.

Year	India’s total export (USD billion)	India’s export to US (USD billion)	Percentage
2022-23	451.07	78.54	17.4
2023-24	437.07	77.51	17.7
Apr’24 – Jan’25	358.63	68.45	19

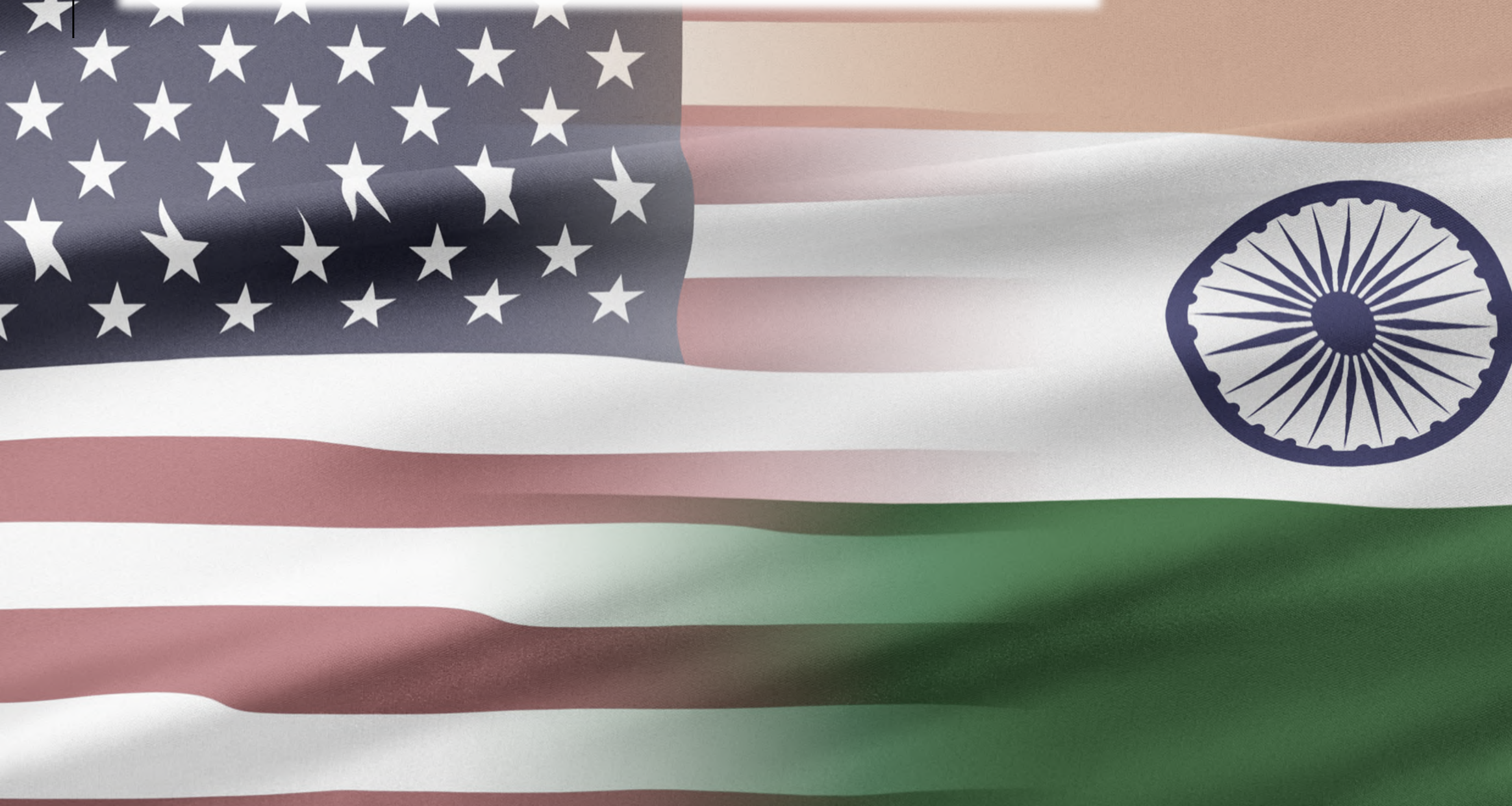
While the US tariffs of 2025 will affect various Indian industry sectors, the country’s competitive positioning in some areas can help mitigate the negative impact, especially when compared to competitors like China, Vietnam, and the European Union (**EU**).



Sectoral impact on Indian industry

- Engineering goods (22% of India’s US exports): India's engineering goods sector (industrial machinery, electrical equipment, and steel products) faces a 25% tariff on steel and aluminium exports to the US. While the higher duties could raise costs for Indian exporters, the sector’s limited dependence on US steel demand – relative to robust domestic consumption – helps cushion the impact. Furthermore, India's strength in manufacturing cost-competitive machinery and electrical equipment may allow it to retain competitiveness despite the new tariffs.

- Electronics (13% of India's US exports): Initially subject to a 27% tariff, India's electronics exports—particularly smartphones, laptops, and tablets – have now been exempted from the new duties following the US government's amendment on April 13. India now enjoys parity with Vietnam, both benefitting from zero tariffs on these high-volume exports, while China continues to face 20% tariffs. This 20% advantage over China strengthens India's competitiveness in consumer electronics makes this sector particularly resilient.
- Automobiles and auto parts (3% of India's US exports): A 25% tariff on automobiles and auto parts will affect India's exports, mainly auto components. India's limited car exports reduce the overall impact, but auto parts, critical for US manufacturing, could remain competitive compared to countries like China. India's focus on cost-effective auto components helps shield it from the full brunt of the tariff. With an increasing demand for electric vehicles, India may benefit from rising EV parts exports.
- Textiles and apparel (12% of India's US exports): India's textile exports, particularly cotton-based products, will face the 27% tariff. However, India's self-sufficiency in cotton and higher tariffs on competitors like Vietnam (46%) and Bangladesh (37%) could allow India to gain market share. This shift in demand from other countries may help offset some of the tariff-induced losses in this sector.
- Pharmaceuticals (10% of India's US exports): The pharmaceutical sector remains unaffected by the tariffs, as it is exempted due to its importance to public health. India's strong position in generic drugs, especially in the US, ensures continued growth and stability for this sector.
- Gems and jewellery (11% of India's US exports): The 27% tariff poses a challenge for India's jewellery exports, potentially raising prices for US consumers. However, competition from China, which faces even higher tariffs, may offer some relief. The growing market for lab-grown diamonds could pose additional challenges for India in this sector.
- Agricultural products (29% of India's US exports): Agricultural exports like cereals and spices will see tariff hikes. However, these increases are somewhat offset by even higher tariffs on competitors, such as Ecuador in the shrimp market. Still, price-sensitive products may face reduced demand, impacting India's agricultural export volumes.
- Chemicals (minimal impact): India's chemical exports to the US are relatively small, so the tariff impact is minimal. India may benefit from the higher tariffs imposed on Chinese chemicals, gaining a slight edge in the market.
- Oil and gas: India's oil exports to the US are limited, but rising tariffs could affect global trade dynamics. Venezuela's lower tariffs (10%) might make its oil exports more attractive, potentially affecting India's competitiveness in this sector. However, countries importing oil from Venezuela face an additional 25% tariff, which, combined with Venezuela's already declining export volumes, may limit its advantage.



Companies in FDI-prohibited sectors can issue bonus shares to existing non-resident shareholders

DPIIT's Press Note 2 (2025)

The Department for Promotion of Industry and Internal Trade (**DPIIT**) has recently released its Press Note 2 (2025) (**Press Note**) clarifying that Indian companies engaged in sectors or activities prohibited for Foreign Direct Investment (**FDI**) are authorised to issue bonus shares to their pre-existing non-resident shareholder(s) provided that their shareholding pattern does not change in accordance with the issuance of bonus shares.

While companies operating in sectors prohibited under the FDI policy, such as tobacco, lottery, gambling, chit funds, and atomic energy, are barred from receiving new foreign investment, they often have existing non-resident shareholders whose investments were made prior to the imposition of sectoral FDI restrictions. The existence of such 'grandfathered' investments (permissible under the old law) did not automatically clarify the permissibility of bonus issuances, which, although non-cash in nature, could impact shareholding patterns. Such companies, with significant foreign shareholding, have adopted a cautious approach by seeking prior Reserve Bank of India (**RBI**) approval.

The Press Note explicitly amends Paragraph 1 of Annexure 3 of the FDI Policy, stating that Indian companies in FDI-prohibited sectors are now allowed to issue bonus shares to their existing non-resident shareholders, provided there is no change in the relative shareholding pattern post-issuance. This means that the proportional ownership of non-resident shareholders must remain the same, effectively preventing any indirect increase in foreign control and maintaining the integrity of FDI restrictions. This permission is further subject to compliance with applicable laws such as the Companies Act, 2013

The Press Note will come into force upon issuance of the relevant notification under the Foreign Exchange Management 1999, (**FEMA**), with corresponding amendments expected shortly in the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019.

In addition to bringing clarity on the ability of companies in sensitive sectors to issue bonus shares to carry out legitimate corporate actions, including bonus issuances, without breaching FDI norms, the Press Note removes the existing requirement for prior RBI approval, thereby reducing bureaucratic delays and simplifying the compliance process. This reform also boosts investor confidence, enhances regulatory clarity, and ensures that compliant foreign shareholders are not unfairly excluded from the benefits of such actions. Despite this positive development, the issue of whether bonus issues that result in shifts in voting power between resident and non-resident shareholders, due to factors like non-participation or rounding off, would inevitably come under regulatory scrutiny.

CIRP cannot be initiated on the basis of speculative investment

Profit-sharing agreement involving reciprocal obligations is not financial borrowing

In a recent decision, the National Company Law Tribunal, New Delhi (**NCLT**) held that a profit-sharing agreement involving reciprocal obligations in the nature of speculative investment is not a financial debt and cannot be used to initiate Corporate Insolvency Resolution Process (**CIRP**).[1]

Krrish Realtech Pvt Ltd (**Corporate Debtor**/**CD**) entered into a Memorandum of Understanding (**MoU**) with MK Jain and his family (**Applicants**) whereby the Applicants were to advance INR 15 crore as investment (**Investment**) in consideration of which the CD would purchase allot certain plots belonging to Kelvin Buildcon Pvt Ltd (**Kelvin Plots**) and allot them to the Applicants by a specified 'cut-off date'. Clause 5 placed a reciprocal obligation on the Applicants requiring them to sell the Kelvin Plots in the market on the following conditions:

- If sold below INR 60,000 per square yard, the CD would have the right of first refusal
- If sold above INR 60,000 square yard, the parties shall share the profit revenue so generated

The CD could not allot the Kelvin Plots by the cut-off dates resulting in breach of the MoU. The Applicants initiated arbitration and secured an interim award in their favour, on the basis of which the Applicants sought initiation of CIRP against the CD under Section 7 of the Insolvency and Bankruptcy Code, 2016 (**Code**) contending that the Investment was in the nature of a financial borrowing.

The NCLT dismissed the CIRP application and held that since the MoU contained reciprocal rights and obligations and the nature of the transaction was to share the profits, the Applicants would receive a residual gain upon the fulfilment of the Agreement. As such, the transaction was in the nature of speculative investment, which did not qualify as a 'financial debt' under the Code.

The decision underscores the importance of distinguishing between genuine financial borrowings and speculative investments structured as commercial arrangements. Parties advancing funds with the expectation of profit-sharing or contingent returns based on future events must be cautious as such arrangements may fall outside the ambit of 'financial debt' under the Code. Investors should ensure that lending arrangements reflect the characteristics of a loan (such as fixed returns, clear repayment terms, and consideration for time value of money) to avoid adverse outcomes in enforcement.

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[1] MK Jain v. Krrish Realtech Pvt Ltd, Company Petition (IB) No. 348 of 2024

MCA proposes to widen the scope of fast-track mergers

Draft amendments to the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016

In a bid to simplify and expedite corporate restructuring, the Ministry of Corporate Affairs (**MCA**) has proposed amendments to the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016 (**Rules**). These changes aim to significantly expand the scope of fast-track mergers under Section 233 of the Companies Act, 2013. The proposed amendments, originally announced as part of the Union Budget 2025-26, are now open for stakeholder comments till May 5, 2025.

Fast-track mergers were introduced in 2016 to facilitate quicker corporate restructurings between certain classes of companies without requiring approval of the National Company Law Tribunal (**NCLT**). Currently, this route is limited to:

- Mergers between two or more small companies
- A holding company and its wholly-owned subsidiary
- Two or more start-ups
- A start-up with one or more small companies

The proposed amendments significantly widen the scope of entities eligible for fast-track mergers by including the following new categories:

- Unlisted companies with low debt and no defaults: Mergers between unlisted companies (excluding Section 8 companies), where each has borrowings of less than INR 50 crore from financial institutions or corporate lenders and no defaults in repayment obligations. An auditor's certificate confirming compliance will be mandatory with the merger application.
- Holding companies and their unlisted subsidiaries: The proposed amendments allow any unlisted subsidiary (not necessarily wholly-owned) to merge with its listed or unlisted parent company.
- Fellow subsidiaries of the same holding company: Mergers between two or more unlisted subsidiaries of a common parent company would now be permitted, paving the way for more flexible intra-group consolidations.
- Inbound cross-border mergers: Provisions under Rule 25A(5), introduced in 2023, which allow a foreign holding company to merge with its Indian wholly-owned subsidiary, will now be formally included under Rule 25 itself, ensuring a consolidated and self-contained fast-track framework.

By removing the requirement for approval by the NCLT, the most significant benefit of the proposed amendments is the reduced compliance burden and approval timelines, allowing companies to restructure without having to navigate lengthy and often complex litigation. The reform is particularly supportive of start-ups and MSMEs, thus encouraging innovation and growth. Additionally, by permitting mergers between fellow subsidiaries and expanding the scope of permissible holding-subsidiary combinations, the amendments promote group synergies and enable companies to undertake internal restructuring more efficiently. Introducing objective thresholds (such as debt limits and non-default status) has enabled more businesses to leverage simplified routes without compromising creditor protection or investor confidence. The proposed reform is a progressive step aligned with India's larger goal of enhancing its ease of doing business.

ESOPs for founders remain valid after being classified as promoters during IPO

SEBI's consultation paper on proposed amendments to the SBEBSE Regulations, 2021

In a significant move aimed at resolving longstanding ambiguity, the Securities and Exchange Board of India (**SEBI**) has proposed an amendment to the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 (**SBEBSE Regulations**) to clarify that Employee Stock Option Plans (**ESOPs**), Stock Appreciation Rights (**SARs**), or similar benefits granted to founders before they are identified as 'promoters' in a Draft Red Herring Prospectus (**DRHP**) will remain valid and exercisable post-listing. To prevent misuse, this exemption will apply only to grants made at least 1 year prior to the company's IPO decision.

Existing framework

- Promoters or members of the promoter group (immediate relatives of the promotor) are not eligible for ESOPs unless they qualified as 'employees' of the company prior to the filing of its DRHP.
- The SBEBSE Regulations explicitly exclude promoters and promoter group members from the definition of an 'employee' once the company's DRHP has been filed. Thus, once a founder is classified as a promoter upon listing, they are ineligible to receive fresh ESOP grants.
- Further, under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (**ICDR Regulations**), any person who has direct or indirect control over the affairs of the company is a promoter. As a result, many founders are classified as promoters at the time of listing, making them ineligible for any new issuance of ESOPs.
- Any ESOPs issued in violation of the above restriction may be rendered *void* or subject to regulatory scrutiny. This restriction prevents any undue concentration of ownership and ensures that ESOPs serve as an incentive tool for employees rather than for controlling shareholders.

Since many startup founders initially receive ESOPs as part of their compensation and incentives, they often become classified as promoters when preparing for an IPO. The current framework does not explicitly clarify whether a founder who has been granted ESOPs before the DRHP filing can exercise them upon being reclassified as a promoter at the time of listing, leading to uncertainty and concerns among founders regarding their ESOPs benefits.

Clarification by SEBI

To address this ambiguity, SEBI has proposed to add an Explanation to Regulation 9(6) of the SBEBSE Regulations, and clarify the following:

- ESOPs, SARs, and other such benefits granted to founders before the DRHP filing date will remain valid and exercise-able even if they are later classified as promoters during the IPO process. This ensures that the founders remain financially incentivised.
- The benefit applies only to ESOPs granted at least 1 year prior to the company's IPO filing. Any ESOPs issued within 1 year of the DRHP filing will be subject to existing promoter restrictions. This 'cooling-off period' prevents misuse of the benefit by restricting companies from granting ESOPs immediately before the IPO to increase promoter shareholding.

Benefits of the proposed amendment

- Removes uncertainty: By explicitly allowing pre-DRHP ESOPs to be exercised post-listing, the clarification eliminates ambiguity for founders. The proposed change acknowledges the prevalent practice in new-age companies of granting ESOPs to founders as a means of long-term incentivisation and aligns with the principle that share-based benefits granted while an individual is an employee should not be forfeited merely due to a reclassification as promoter during the IPO process.
- Encourages IPOs: Many startups have hesitated to go public due to the unclear ESOPs framework. With this issue resolved, founders may feel more confident about transitioning to public markets as the proposed amendments will bring more transparency and confidence to both founders and investors during the IPO process.
- Boosts founder retention: ESOPs are crucial for ensuring long-term commitment from key personnel. By allowing founders to retain their pre-DRHP stock options, SEBI ensures they remain invested in the company's success even after the IPO. It strikes a balance between founder retention and regulatory safeguards by allowing exercise only if such grants were made at least 1 year prior to the IPO decision.

The proposed clarification is a progressive step towards fostering a more startup-friendly regulatory environment and will significantly impact how startups approach IPOs in India. It reinforces SEBI's commitment to balancing regulatory oversight with flexibility for high-growth companies, making India's capital markets more attractive for emerging businesses.

SEBI accords formal recognition to Stock Appreciation Rights

SEBI (Issue of Capital and Disclosure Requirements) Amendment Regulations, 2025

The Securities and Exchange Board of India (**SEBI**) has approved amendments to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (**ICDR Regulations**), formally incorporating Stock Appreciation Rights (SARs) within the regulatory framework. The amendments, effective from March 8, 2025, will significantly impact capital raising, compliance obligations, and regulatory oversight.

SARs allow employees to benefit from the increase in a company's stock price without requiring them to purchase shares upfront. Unlike Employee Stock Option Plans (**ESOPs**), which mandate employees to pay an exercise price to acquire shares, SARs grant them the right to receive the equivalent of stock price appreciation in cash or equity upon vesting, offering a gain without the financial risk of owning stock. Many companies prefer stock-based SAR settlements as a means of conserving cash reserves.

The amendment formally recognises SARs as a valid equity-linked instrument for regulatory purposes. This marks a significant shift, particularly in the context of Initial Public Offerings (**IPOs**) and ESOPs, where SARs were previously unregulated or ambiguously treated, aligning SAR treatment with ESOPs.

This recognition entails the following regulatory changes:

- Pre-IPO treatment of SARs (Regulation 5(2)): Issuers must ensure that all outstanding SARs granted to employees are exercised and converted into equity shares prior to filing the red herring prospectus or prospectus. The resultant equity shares must be explicitly disclosed in both the draft and final offer documents. This enhanced disclosure requirement improves transparency, ensuring investors have clear visibility into potential equity dilution. With SARs now formally recognised in IPO structuring, companies must balance employee incentives with potential equity dilution. Overuse of SARs could impact shareholding structures, requiring careful planning and regulatory adherence.
- Promoter contribution (Regulation 14): SARs are now included in the computation of promoter contribution. While the amendment ensures consistency in disclosure requirements, it also imposes additional compliance obligations on companies, requiring them to navigate new disclosure norms under SEBI's regulatory framework.
- Applicability to ESOPs (Regulation 17): SARs have been integrated into the provisions governing ESOPs, especially with respect to adjustments for bonus issues and corporate actions.

By provide regulatory certainty, the amendments are expected to make SARs a more integral part of corporate compensation strategies in India. While the added regulatory clarity is likely to encourage more companies to use SARs to attract and retain talent, companies must exercise caution against its overuse and carefully navigate additional compliance requirements in the usage, valuation, and disclosure of SARs.

The amendment enhances investor protection, corporate accountability, and disclosure standards. However, as its adoption grows, further refinements regarding SAR-based equity issuances may be necessary for standardising valuation methods, improving disclosure norms, and strengthening investor protection measures.

Creditor cannot claim interest based on an unsigned invoice

No automatic right to interest under IBC

In a recent decision, the National Company Law Appellate Tribunal, New Delhi (**NCLAT**) held that the interest component mentioned in an unsigned invoice cannot be incorporated in the claim amount.[2]

Jai Narayan Fabtech Pvt Ltd (**Operational Creditor**/**OC**) supplied polyester staple fibre to Cheema Spintex Ltd (**Corporate Debtor**/**CD**) on various occasions along with invoices. The CD defaulted in making payments and the OC initiated CIRP on a principal claim of INR 74 lakh along with interest on account of delayed payment at 12% per annum (as per the terms of the invoices), amounting to INR 85 lakh, totalling to INR 1.59 crore.

The NCLAT noted that the invoice (which mentioned the interest component) was not signed by the CD and was therefore a unilateral document. As such, interest cannot be recovered on the basis of the unsigned invoice. As the interest component could not be claimed, the claimed amount fell below the INR 1 crore threshold as per Section 4 of the Insolvency and Bankruptcy Code, 2016 (**Code**).

This decision highlights the critical importance of evidencing mutual agreement on key commercial terms, particularly interest on delayed payments, in insolvency proceedings. Creditors cannot rely on unilateral documents, such as unsigned invoices, to substantiate interest claims. Operational creditors must ensure that terms relating to interest are expressly agreed upon in writing and acknowledged by the CD, whether through signed contracts, purchase orders, or confirmed invoices. In cases involving multiple or recurring shipments, suppliers would be well-advised to seek a signed acknowledgment of each invoice, especially where interest or specific payment terms are stipulated, before proceeding with subsequent deliveries. This not only strengthens the evidentiary value of the claim but also safeguards enforceability under the Code.

Similarly, in a separate decision, the National Company Law Tribunal, Mumbai (**NCLT**) has clarified that the Code does not create any automatic right to claim interest on the principal claim (default).[3] The language of Regulation 16A(7) of the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2016 (**CIRP Regulations**), *'The voting share of a creditor in a class shall be in proportion to the financial debt which includes an interest at the rate of eight per cent per annum'* merely provides for the calculation of the voting share of a creditor in a class and does not create an automatic entitlement with respect to interest that must be included in a resolution plan.

Revised compliance form for resolution plan approval

IBBI (Insolvency Resolution Process for Corporate Persons) (Second Amendment) Regulations, 2025

The Insolvency and Bankruptcy Board of India (**IBBI**) has amended the IBBI (Insolvency Resolution Process for Corporate Persons) Regulations, 2016 (**CIRP Regulations**) introducing revisions to Form H of Schedule I required to be submitted by the Resolution Professional (**RP**) along with the resolution plan approved by the Committee of Creditors (**CoC**) to the Adjudicating Authority.

The updated Form H requires details of the following information:

- CIRP details: The date of submission of the resolution plan and dates of orders granting extensions to the Corporate Insolvency Resolution Process (**CIRP**).
- Approval application: Whether the application for approval of the resolution plan was filed within 180 days from the commencement of CIRP and if not, the number of days of delay and reasons for such delay.
- Successful Resolution Applicant (**SRA**): Details and documents related to the SRA, including the due diligence certificate of the resolution professional under Section 29A of the Insolvency and Bankruptcy Code, 2016 (**Code**).
- Plan details: Voting percentage for the resolution plan, and brief details of the term and implementation of the plan.
- Realisable amount: Details of the total realisation amount under the plan and its percentage to the fair value and liquidation value.
- Carry forward losses: Details about carry forward losses under Section 79(2)(c) of the Income Tax Act, 1961.
- PUFE transactions: An explanation of how Preferential, Undervalued, Fraudulent, and Extortionate (**PUFE**) transactions are dealt with in the resolution plan.
- Omission of deviations or non-compliance: No requirement of the explicit mention of any deviations or non-compliance with the provisions of the Code, regulations, or circulars.

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[2] Jai Narayan Fabtech Pvt Ltd v. Cheema Spintex Ltd, Company Appeal (AT) (Ins) No. 1515 of 2023

[3] Klassic Wheels Ltd v. Amit Vijay Karia, Company Petition (IB) No. 715 of 2021

Re-classification and revised turnover limits for MSMEs

Notification by the Ministry of Micro, Small and Medium Enterprises

The Ministry of Micro, Small and Medium Enterprises has recently issued a notification in supersession of its earlier notification dated June 26, 2020, re-classifying Micro, Small, and Medium Enterprises (**MSMEs**) by revising the limits for investment in plant, machinery, and equipment and for turnover as follows:

Enterprise	Current	Revised
Micro Enterprise	Investment limit: INR 1 crore Turnover limit: INR 5 crore	Investment limit: INR 2.5 crore Turnover limit: INR 10 crore
Small Enterprise	Investment limit: INR 10 crore Turnover limit: INR 50 crore	Investment limit: INR 25 crore Turnover limit: INR 100 crore
Medium Enterprise	Investment limit: INR 50 crore Turnover limit: INR 250 crore	Investment limit: INR 125 crore Turnover limit: INR 500 crore

The re-classification of MSMEs is likely to lead to the following benefits:

- Greater access to credit: More enterprises now qualify for schemes like priority sector lending, collateral-free loans, and interest subvention, easing their credit challenges.
- Incentivising growth: Businesses can scale up operations without the fear of losing MSME benefits, encouraging reinvestment and expansion.
- Strengthening employment and regional development: With fewer regulatory hurdles, MSMEs in smaller towns and rural areas can expand and create more local jobs, driving inclusive economic growth.
- Enhancing global competitiveness: Larger export-oriented enterprises can retain MSME status and benefits, enabling them to scale while staying competitive in international markets.

The reclassification is accompanied by an enhancement of credit guarantee, doubling the credit guarantee cover from INR 5 crore to INR 10 crore. This is expected to unlock INR 1.5 lakh crore in additional credit over 5 years.

Additionally, in line with the mandatory 45-day payment period (for companies procuring goods/services from Micro and Small Enterprises) specified under Section 15 of the Micro, Small and Medium Enterprises Development Act, 2006, any company exceeding such statutory period would be required to submit a half-yearly return to the Ministry of Corporate Affairs (**MCA**) stating the amount of payment due and the reasons of the delay.

The details, which were earlier required to be filed in Form MSME – 1 with the Registrar of Companies (**RoC**), are now also to be filed with the MCA by October 31 (for the period of April to September) and by April 31 (for the period of October to March). Failure to do so would entail penalties of upto INR 3 lakh as per Section 405(4) of the Companies Act, 2013.

SEBI streamlines framework for rights issue by listed companies

Eligibility criteria for fast-track route removed

The Securities and Exchange Board of India (**SEBI**) has significantly simplified the regulatory regime governing rights issue by a listed company through amendments to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (**ICDR Regulations**). These changes, effective from April 7, 2025, aim to expedite rights issue, reduce compliance costs, streamline disclosures, enhance investor protection, and introduce flexible participation models, in line with contemporary market dynamics.

A rights issue allows existing shareholders to subscribe to additional shares in proportion to their existing holdings, typically at a discount. Governed under Section 62(1) of the Companies Act, 2013 and Regulation 2(1)(xx) of the ICDR Regulations, this mechanism enables companies to raise capital while offering existing investors the opportunity to maintain their shareholding percentage.

Key changes in the framework for rights issue are as follows:

- Broadened eligibility criteria
  - Chapter III of the ICDR Regulations will now apply to all rights issues, irrespective of issue size, removing the earlier threshold of INR 50 crore.
  - The criteria for the fast-track route issue such as a 3-year listing history, INR 250 crore public float, and promoter subscription requirements, have been eliminated.
  - Several previous eligibility conditions are now converted into disclosure items in the Draft Letter of Offer (**DLOF**) and Letter of Offer (**LOF**).
- Revised due diligence and role of intermediaries
  - Appointment of a Book Running Lead Manager (**BRLM**) is no longer mandatory as the issuer assumes full responsibility for due diligence and preparation of DLOF and LOF, coordinating the marketing, intermediary appointments, and allotment procedures with the Registrar, stock exchanges, and depositories.
  - The DLOF must now be filed with stock exchanges for in-principle approval, and the LOF is submitted to SEBI for information purposes only. A monitoring agency must be appointed, irrespective of the issue size.
- Unified disclosure framework (Part B of Schedule VI)
  - The distinction between disclosure obligations based on listing history and schemes of arrangement has been removed, and there is no requirement for a Management Discussion & Analysis (**MD&A**) section. The business overview needs to be summarised, and legal proceedings can be presented briefly in tabular form.
- Expedited timelines
  - The entire rights issue process must now be completed within 23 working days from the date of the board resolution approving the issue. For convertible debt instruments requiring shareholder approval, the second board meeting (to finalise record date, price, and ratio) must be scheduled upon receipt of such approval.
- Flexibility in allotment to specific investors
  - Promoters and promoter groups may now renounce their rights entitlements in favour of 'specific investors' (defined under Regulation 77B). Issuers must disclose the names of specific investors receiving the entitlements; details of rights renounced by promoters or promoter group; and whether any undersubscribed portion will be allocated to these investors. These details must be included in the DLOF, LOF, advertisements, and must be notified to stock exchanges at least 2 days before the issue opens. However, the amendment does not clarify whether such 'specific investors' must be existing shareholders or may include others, leaving room for interpretation

SEBI's reforms address a long-standing criticism regarding the slow and cumbersome framework of rights issue compared to alternative fundraising modes. As per SEBI's 2024 annual report, rights issues raised INR 6,751 crore and INR 15,110 crore in FY 2022-23 and FY 2023-24, respectively, significantly less than the INR 83,832 crore and INR 45,115 crore raised *via* preferential allotments in the same periods. This progressive regulatory shift is expected to make rights issue a more attractive and viable capital-raising tool for listed companies. For investors, the changes offer enhanced transparency, faster execution, and expanded participation options, marking a robust step toward a modern, efficient, and inclusive securities market.

RBI cuts repo rate by 25 basis points to 6%

Monetary policy changed from 'accommodative' to 'neutral'

The Reserve Bank of India's (**RBI**) Monetary Policy Committee has cut the repo rate by 25 basis points for the second consecutive time, lowering it from 6.25% to 6.00%. This policy change from 'accommodative' to 'neutral' comes in the wake of the United States tariffs, which threaten RBI's Gross Domestic Product (**GDP**) growth estimate of 6.7%.

This reduction in the repo rate is expected to provide relief to borrowers, particularly those with floating-rate home loans, as banks and financial institutions begin to pass on the benefits through lower interest rates. In addition to reducing Estimated Monthly Instalments (**EMIs**), the rate cut could spur greater credit demand, encourage consumer spending, and support investment activity.

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