

LAW & POLICY UPDATE

CORPORATE & COMMERCIAL



New classification of MSMEs

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Government of India enacted Micro, Small and Medium Enterprises Development Act, 2005 (**MSME Act**) under which classification of micro, small and medium enterprises (**MSME**) was dependent on two factors: (i) investment in plant and machinery; and (ii) turnover of the enterprise. It is also pertinent to note that different thresholds were prescribed for being classified as an MSME based on the aforesaid factors, for enterprises engaged in manufacturing and services sector.

However, recently, under Aatmanirbhar Bharat Abhiyan (**ABA**), Ministry of Micro, Small and Medium Enterprises, vide its notification dated June 1, 2020, revised MSME classification by inserting a composite criterion for both investment in plant and machinery and annual turnover of enterprises. Also, the distinction between the manufacturing and the services sectors under erstwhile MSME definition has been done away with. This removal will create parity between the sectors.

A comparison of the erstwhile MSME classification to the revised classification where the investment and annual turnover, both are to be considered for classification of an enterprise as an MSME, is set out below:

Erstwhile MSME Classification			
Criteria: Investment in Plant and Machinery/Equipment			
Classification	Micro	Small	Medium
Manufacturing Enterprises	Investment not more than INR 25 lakhs	Investment not more than INR 5 crores	Investment not more than INR 10 crores
Enterprises rendering Services	Investment not more than INR 10 lakhs	Investment not more than INR 2 crores	Investment not more than INR 5 crores
Revised MSME Classification (w.e.f. July 1, 2020)			
Composite Criteria: Investment in Plant and Machinery/Equipment and Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing Enterprises and Enterprises rendering Services	Investment in P&M/Equipment not more than INR 1 crore and Annual Turnover not more than INR 5 crores	Investment in P&M/Equipment not more than INR 10 crores and Annual Turnover not more than INR 50 crores	Investment in P&M/Equipment not more than INR 50 crores & Annual Turnover not more than INR 250 crores

The new classification of MSME's shall be effective from July 1, 2020. This new classification has been introduced by the Government to boost businesses and put to rest the growing fear among MSMEs of losing benefits granted under the MSME Act on account of outgrowing the erstwhile thresholds of classification. While this is a welcome initiative by the Government, various questions remain unanswered, namely - what constitutes "plant and machinery", will the previous guidelines on calculation of investment towards plant and machinery still be applicable.

Further, it is pertinent to note that Finance Minister has clarified that start-ups are eligible to avail relief measures announced for MSME under the ABA. While start-ups are not explicitly covered under the definition of MSMEs, start-ups operating and engaged in the manufacturing and services sector may consider registering themselves as an MSME on the Udyog Aadhar Portal (considering the revised classification of MSMEs). By registering as an MSMEs, start-ups can avail the various other benefits offered to MSMEs under the ABA. Official notifications, in this regard are awaited.