



Article

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Registration under the MSMED Act: From Identity to Opportunity

India hosts 63 million micro, small and medium enterprises¹ (“MSMEs”) which account for nearly 30% of the gross domestic product and 46% of the exports from the country.² Many operate outside formal frameworks. However, they remain the backbone of the country’s economy. They generate employment and drive local growth, but their ability to scale is limited. For investors, both foreign and Indian, this large yet under formalised sector could represent a strategic opportunity.

Formal recognition under the Micro, Small and Medium Enterprises Development Act, 2006 (“MSMED Act”) enables enterprises to transition into the formal economy and allows investors to engage with them within a structured regulatory framework. Registration grants legal protection, guarantees access to institutional credit and unlocks advantages in government procurement.

Further, under the Consolidated FDI Policy of 2020 and press notes released thereunder, MSMEs are able to receive FDI, often under the automatic route.³ Foreign investors can set up greenfield MSMEs or acquire equity in existing enterprises in manufacturing, information technology, e-commerce and agribusiness (except for agricultural sectors/activities wherein FDI is not permitted) without government approval. With these benefits, foreign investors should consider investing in MSMEs.

Recognition under the MSMED Act

Under the MSMED Act, 2006, formal recognition is provided to Micro, Small and Medium enterprises (“MSMEs”) through the process of registration. MSMEs are classified based on two criteria⁴: (i) investment in plant and machinery and equipment; and (ii) turnover. These are revised from time to time by the Ministry of MSMEs to align the scope of eligibility with prevailing market conditions. The latest classification allows for the inclusion of larger entities as illustrated below.⁵

¹ https://www.niti.gov.in/sites/default/files/202505/Enhancing_Competitiveness_of_MSMEs_in_India.pdf.

² <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2142170>.

³ The Consolidated FDI Policy is applicable to all eligible investee entities irrespective of scale and size. It should be noted that FDI is not permitted in certain sectors, is capped in others and FDI is subject to certain conditions.

⁴ Section 7 of the MSMED Act, 2006 provides for the classification of enterprises.

⁵ Gazette Notification S.O. 1364 (E) dated March 21, 2025.

Category	Investment in Plant and Machinery or Equipment (In INR Crores)		Annual Turnover (In INR Crores)	
	Pre-1 April 2025	Post 1 April 2025	Pre-1 April 2025	Post 1 April 2025
Micro	≤1	≤2.5	≤5	≤10
Small	≤10	≤25	≤50	≤100
Medium	≤50	≤125	≤250	≤500

This will attract investors to structure subsidiaries or joint ventures within the MSME category to access benefits. Since July 2020, MSME registrations have been conducted online via the Udyam Portal. This simplifies compliance and integration into government schemes. A separate initiative has also been crafted for informal micro enterprises which reduces registration requirements but still allows these enterprises to be treated at par with MSMEs for the purposes of priority sector lending.⁶

Access to Finance

Credit: According to the Reserve Bank of India's ("RBI") Master Directions on Priority Sector Lending (2025),⁷ all banks regulated by the RBI are required to provide at least 40% of their loans to priority sectors, which include MSMEs. Further, banks are mandated not to accept collateral security in case of loans up to INR 1 million extended to MSMEs and can increase the limit to dispense with collateral requirement for loans up to INR 2.5 million based on good track record and financial position of the enterprise. Banks are also encouraged to secure loans, not exceeding INR 100 million, provided to micro and small enterprises ("MSEs") under the Credit Guarantee Fund Trust for Micro and Small Enterprises ("CGTMSE").⁸ For foreign companies setting up subsidiaries in India, MSME registration reduces financial barriers since they can raise working capital locally through priority sector loans and benefit from credit guarantees rather than requiring a large capital contribution.

Foreign Direct Investment ("FDI"): To increase the flow of FDI in MSMEs, the Ministry of MSMEs provides government support for participation in international trade fairs, exhibitions and export promotion initiatives through the International Cooperation Scheme.⁹

Access to Markets

The Public Procurement Policy for MSMEs Order, 2012, as amended in 2018,¹⁰ mandates central ministries, departments and public sector undertakings to procure a minimum of 25% of their annual requirements from MSMEs. To reduce dependence on foreign suppliers under the Atmanirbhar Bharat initiative, government procurements of up to INR 200 crores is restricted to domestic MSMEs. Foreign companies setting up MSME registered subsidiaries in India would therefore be able to access the domestic procurement pipelines which usually remain closed to non-resident suppliers. Apart from the Central Government, the State Governments have taken steps towards easing market access for MSMEs. For example, through the Export Policy (2023), the Government of Maharashtra supports new MSME exporters by providing a subsidy of 50% of their logistics expenses for the first three years, which is capped at INR 1 lakh per MSME annually.¹¹ Similarly, export-oriented MSMEs are eligible

⁶ Gazette Notification S.O. 1296(E) dated 20 March 2023.

⁷ Master Direction – Reserve Bank of India [Lending to Micro, Small & Medium Enterprises (MSME) Sector] - Directions, 2017, available at: https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=12799.

⁸ Available at: <https://www.cgtnse.in/>.

⁹ Available at: <https://msme.gov.in/international-cooperation>.

¹⁰ Gazette Notification S.O. 5670(E), available at: <https://www.dcmsme.gov.in/Gazette%20Notification.pdf>.

¹¹ Available at: <https://maitri.mahaonline.gov.in/PDF/Maharashtra%20Export%20Policy%202023.pdf>.

for assistance of 10% of the fixed capital investment (in addition to a maximum subsidy of 45% of the fixed capital investment) from the Government of Kerala under the Entrepreneur Support Scheme.¹²

Dispute Resolution

The MSMED Act provides protection against delayed payments, which impacts the liquidity of the MSME by enabling suppliers to make a reference (online) to the Facilitation Council if a buyer fails to pay an MSME within 45 days of acceptance (or deemed acceptance). The Facilitation Council can conduct mediation itself or refer the matter to a mediation centre under the Mediation Act, 2023, which is required to be completed within a stipulated timeline (approximately six months in total). If the mediation fails, the Council may refer the dispute to arbitration, governed by the Arbitration and Conciliation Act, 1996.

However, the Supreme Court in *M/s Silpi Industries v. Kerala State Road Transport Corporation*,¹³ clarified that only registered MSMEs are entitled to invoke the provisions of the MSMED Act. For foreign investors, registration ensures cashflow protection equivalent to domestic enterprises. Registered MSMEs can rely on the Act rather than solely on contractual terms.¹⁴

Conclusion

Registration under the MSMED Act, through the Udyam Registration Certificate or Udyam Assist Certificate, provides MSMEs with formal recognition, enabling them to access statutory protections, financial support, and market opportunities. For foreign investors, it represents more than compliance: it is a strategic entry point into India's fast-growing economy. MSME registration enables local credit access, government procurement eligibility, export participation, and enforceable dispute resolution. With informed legal structuring, investors can leverage India's MSME framework to build sustainable, competitive, and policy-aligned operations.

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¹² Available at: <https://industry.kerala.gov.in/index.php/schemes-mainmenu/entrepreneur-support-scheme-schemes>.

¹³ 2021 SCC OnLine SC 439.