

# Boosting ease of business: The expanded definition of 'Small Company' and its compliance windfalls

8 December 2025

The Ministry of Corporate Affairs (MCA) has significantly revised the financial thresholds for classifying a company as a 'Small Company' under the Companies Act 2013, via the Companies (Specification of Definition Details) Amendment Rules, 2025, effective from 1 December 2025. This change marks a major step towards promoting ease of doing business by extending compliance relief to a much larger set of companies.

## Revised Definition and Implications

The amendment substantially raises the financial limits, bringing a greater number of private companies into the '**Small Company**' category.

| Criteria  | Earlier Limit (as of September 2022) | New Limit (w.e.f. 1 December 2025) |
|---|--------------------------------------|------------------------------------|
| <b>Paid-up Share Capital</b> (Does not exceed)                                | INR 40,000,000                       | INR 100,000,000                    |
| <b>Turnover</b> (Does not exceed in the immediately preceding financial year) | INR 400,000,000                      | INR 1,000,000,000                  |

**Exclusion:** It is crucial to note that the following companies cannot qualify as Small Companies, even if they meet the above financial limits:

1. A public company.
2. A holding company or a subsidiary company of any other company.
3. A company registered under Section 8 (Non-profit organisations).
4. A company or body corporate governed by any special act (e.g., Banking or Insurance companies).

## Key Compliance Exemptions and Benefits

Qualifying as a 'Small Company' offers significant relaxations under the Companies Act, 2013. These exemptions are designed to simplify governance and reduce costs.

| Compliance Area                    | Exemption / Benefit for Small Companies   |
|------------------------------------|---|
| <b>Dematerialisation of shares</b> | Small Companies need not dematerialise their shares and can continue to keep their shares in physical form                |
| <b>Board meetings</b>              | Only 2 board meetings are required in a financial year (one in each half), instead of the 4 required for other companies. |

| Compliance Area  | Exemption / Benefit for Small Companies   |
|--|---|
| <b>Audit / financial statements / auditor's report</b> | Exempted from: (i) preparing a cash flow statement as part of the financial statements; (ii) mandatory rotation of the statutory auditor, promoting continuity with the existing auditor; (iii) auditor's obligation to report on the adequacy and operating effectiveness of the company's Internal Financial Controls (IFC) |
| <b>Annual return / director's report</b>               | Can file: (i) a simplified annual return (Form MGT-7A) with the registrar of companies. The return can be signed by a single director if there is no company secretary; (ii) an abridged director's report, which requires fewer disclosures  |
| <b>Penalties</b>                                       | Penalties for certain defaults are generally reduced to one-half (50%) of the penalty specified for other companies (subject to a maximum of INR 200,000 in case of a company and INR 100,000 in case of an officer who is in default or any other person, as the case may be.  |
| <b>Fast Track Mergers</b>                              | Can undertake a simplified merger process (fast track merger) which does not require approval from the National Company Law Tribunal (NCLT).  |

## Comments

1. **Reduced Compliance Burden:** The dramatic increase in thresholds means that many medium-sized private companies, which were previously burdened with higher compliance requirements, will now qualify as 'Small Companies'. Management can now focus more resources on business growth and less on procedural formalities.
2. **Financial Relief:** By being subject to lighter penalties and simplified financial reporting, companies can achieve operational and cost efficiency.
3. **Boost to Ease of Doing Business:** This move is in line with the government's objective to enhance the "Ease of Doing Business" ranking for Micro, Small, and Medium Enterprises (MSMEs) in India.

Thus, this comprehensive package of reduced compliance allows companies to streamline their operations, save on professional fees, and channel saved time and resources into core business activities and expansion.

- Sameer Sah (Partner) and Henna Kapadia (Associate)



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