
REDEFINING SMALL COMPANIES UNDER INDIA'S COMPANIES ACT 2013

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ABSTRACT

The concept of a “small company” under Section 2(85) of the Companies Act, 2013 has undergone significant transformation through successive amendments, most recently via the Companies (Specification of Definition Details) Amendment Rules, 2025. These reforms have substantially increased the paid-up share capital and turnover thresholds for classification as a small company and have, in turn, widened the pool of entities eligible for a range of compliance relaxations and regulatory exemptions. This paper critically examines the statutory evolution of the small company definition, the latest 2025 amendments, and their interaction with the broader framework of corporate regulation. It analyses key exemptions, compliance impacts, and policy rationale, and evaluates whether the current threshold architecture effectively balances the objectives of ease of doing business, investor protection, and regulatory oversight.

1. Introduction

Micro, small, and medium enterprises (MSMEs) and early-stage corporate entities play a pivotal role in India's economic growth, employment generation, and innovation ecosystem. Recognising the need to relieve smaller entities from the full rigour of corporate regulation, the Companies Act, 2013 introduced the statutory category of a "small company" under Section 2(85). This category was designed to enable a differentiated compliance regime, calibrated according to size and risk profile.

Over time, policy shifts—particularly the emphasis on "ease of doing business" and formalisation of the economy—have led to progressive expansion of this category. The latest amendment, notified in December 2025, substantially liberalises the financial thresholds for small company status, with significant implications for corporate governance, compliance cost, and regulatory strategy.

This paper analyses these developments from a doctrinal and policy perspective, situating the amendments within the broader trajectory of corporate law reform in India.

2. Statutory Framework: Section 2(85) and Related Provisions

A. Definition under the Companies Act, 2013

Section 2(85) of the Companies Act, 2013 defines a "small company" as a company, other than a public company, whose paid-up share capital and turnover do not exceed such amounts as may be prescribed. Both conditions must be satisfied cumulatively for an entity to qualify as a small company.

The statutory design leaves the precise numerical thresholds to delegated legislation through rules framed by the Central Government. This enables dynamic calibration of thresholds in response to economic conditions and policy priorities.

B. Exclusions from the Definition

The proviso to Section 2(85) excludes certain classes of companies from the small company category, irrespective of whether they satisfy the financial thresholds. These include:

- Holding companies;

- Subsidiary companies;
- Companies registered under Section 8 (non-profit entities);
- Companies or bodies corporate governed by any special Act.

These exclusions reflect the legislative intent that group structures and specialised entities, which often have more complex operations and stakeholder profiles, should not benefit from the relaxed small company regime even if their numerical size is modest.

3. Evolution of the “Small Company” Definition

A. Original Thresholds under the 2013 Act

When first implemented, the Companies Act, 2013 defined a small company as a private company with:

- Paid-up share capital not exceeding ₹50 lakh; and
- Turnover not exceeding ₹2 crore.

This narrow envelope limited the category primarily to very small, early-stage enterprises.

B. Progressive Enhancements: 2021 and 2022 Amendments

In line with the government’s stated objective of easing compliance for smaller entities, the Ministry of Corporate Affairs (MCA) revised these thresholds in stages.

First, through the Companies (Specification of Definition Details) Rules, 2021, the limits were raised to:

- Paid-up share capital up to ₹2 crore; and
- Turnover up to ₹20 crore.

Subsequently, the 2022 amendment further increased the thresholds to:

- Paid-up share capital up to ₹4 crore; and

- Turnover up to ₹40 crore.

These changes significantly broadened the ambit of the small company category and brought a large proportion of private limited companies—particularly in the MSME and startup segments—within its fold.

C. The 2025 Amendment: Current Thresholds

The Companies (Specification of Definition Details) Amendment Rules, 2025, notified with effect from 1 December 2025, represent the latest and most substantial recalibration. Under the revised framework, a small company is now a company, other than a public company, that satisfies:

- Paid-up share capital not exceeding ₹10 crore; and
- Turnover not exceeding ₹100 crore, as per the profit and loss account for the immediately preceding financial year.

Both conditions remain cumulative, and the earlier categorical exclusions (holding, subsidiary, Section 8, and special Act entities) continue to operate unchanged.

4. Compliance Relaxations and Exemptions for Small Companies

The practical significance of the small company classification lies in the constellation of compliance relaxations it attracts across various provisions of the Companies Act, 2013 and allied rules.

A. Board Meetings (Section 173)

Small companies are required to hold a minimum of two board meetings in each calendar year, with at least 90 days' gap between them, in contrast to the general requirement of four meetings with a gap of not more than 120 days between two meetings. This reduction in meeting frequency lowers administrative burden without wholly diluting board oversight.

B. Financial Statements and Cash Flow Statement (Sections 2(40) and 129)

Section 2(40) defines “financial statement” to include, inter alia, a balance sheet, profit and

loss account, cash flow statement, statement of changes in equity, and any explanatory notes. However, one person companies, small companies, and dormant companies are exempted from the requirement of preparing a cash flow statement. Consequently, small companies may present a simplified set of financial statements, easing accounting complexity and associated professional costs.

C. Auditor Rotation and Internal Financial Controls (Sections 139 and 143)

Small companies are exempt from mandatory auditor rotation requirements that apply to certain larger classes of companies. Further, auditors of small companies are not required to report on the adequacy and operating effectiveness of internal financial controls over financial reporting. This reduces the scope, and hence the cost, of statutory audits for such entities.

D. Exemption from CARO 2020

Under the Companies (Auditor's Report) Order, 2020 (CARO 2020), detailed reporting obligations are imposed on auditors relating to areas such as fixed assets, inventory, loans and advances, fraud, and internal control systems. Small companies meeting specified capital and turnover thresholds are exempt from CARO 2020. This exemption substantially simplifies audit documentation and reporting.

E. Annual Return (Section 92 and Form MGT-7A)

Small companies are permitted to file an abridged annual return in Form MGT-7A rather than the comprehensive Form MGT-7. The abridged form entails reduced disclosures relating to shareholding patterns, indebtedness, and other detailed information. This streamlining aligns with the objective of providing proportionate compliance for entities with relatively simple capital and governance structures.

F. Disclosures on Managerial Remuneration

The detailed disclosures mandated under Rule 5 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 are relaxed for small companies. Typically, small companies are required to disclose only aggregate director remuneration, rather than granular, director-wise and employee-wise remuneration details.

G. Certification of Forms and Professional Attestation

Certain e-forms filed by small companies do not require certification by practising professionals such as Chartered Accountants or Company Secretaries. This self-certification regime for routine filings reduces compliance costs and enhances procedural simplicity.

H. Related Party Transactions (Section 188)

While Section 188 applies to related party transactions, certain exemptions operate in favour of private companies, including small private companies, subject to conditions such as the absence of default in filing financial statements and annual returns. In practice, this can translate into reduced shareholder approval requirements for eligible small companies under specific circumstances.

I. Fast-Track Mergers (Section 233)

Small companies are eligible to utilise the fast-track merger mechanism under Section 233 of the Act. This route permits mergers between small companies, between a holding company and its wholly owned subsidiary, and certain other combinations without recourse to the National Company Law Tribunal (NCLT), subject instead to the approval of the Regional Director and other authorities. The fast-track process is less time-consuming and less procedurally intensive, facilitating efficient corporate restructuring within the small company space.

5. Impact of the 2025 Amendments

A. Expansion of the Eligible Universe

The elevation of thresholds to ₹10 crore paid-up capital and ₹100 crore turnover is expected to bring a significantly larger cohort of private companies into the small company category. This includes:

- Early-stage and growth-stage startups that quickly surpass prior thresholds;
- Mid-sized enterprises in manufacturing, services, and technology sectors;
- Professional service firms and knowledge-based enterprises with high turnover but moderate capital bases.

By allowing such entities to remain within a simplified compliance regime for a longer part of their growth trajectory, the amendment aims to free managerial and financial resources for core business activities.

B. Compliance Cost and Governance Effects

On the compliance side, the enlarged thresholds are likely to reduce:

- Frequency and complexity of board and shareholder processes;
- Depth and breadth of audit procedures and auditor reporting;
- Extent of periodic disclosures and filing formalities;
- Professional certification and advisory expenditure.

However, from a governance perspective, continued reliance on reduced disclosures and lighter audit obligations may raise concerns about information asymmetry and risk management, especially where such entities handle substantial stakeholder funds, complex operations, or high leverage. The exclusion of holding and subsidiary companies, as well as Section 8 entities, mitigates some of these concerns, but not entirely.

C. Reclassification and Transitional Issues

Companies that previously exceeded the earlier thresholds but fall within the new limits may seek to be treated as small companies. This reclassification entails:

- Reviewing eligibility in light of both capital and turnover thresholds and statutory exclusions;
- Adjusting internal compliance calendars (for instance, board meeting frequency and audit planning);
- Revisiting internal policies on financial reporting, internal controls, and corporate governance.

Questions may also arise regarding the effective date of applicability, especially in relation to financial years spanning the notification date and the determination of “immediately preceding

financial year” turnover.

6. Policy Rationale and Objectives

A. Ease of Doing Business

The threshold liberalisation is closely aligned with India’s continuing efforts to improve its regulatory climate. By deliberately reducing compliance complexity for a broad swathe of companies, the amendments:

- Lower entry and operating barriers for new incorporations;
- Encourage incorporation of currently unorganised businesses into the corporate form;
- Support the scaling of MSMEs and startups with reduced regulatory friction.

B. Proportional Regulation and Risk Differentiation

The small company framework embodies the principle of proportionality in regulation: entities with limited public interest, lower systemic risk, and relatively simple structures warrant lighter regulatory obligations. The progressive enhancement of thresholds seeks to maintain proportionality in a context where business scales and economic metrics have evolved significantly since 2013.

C. Formalisation and Economic Transparency

By making incorporation and continued compliance less onerous, the regime incentivises informal and partnership-form businesses to transition into the corporate sector. This fosters better record-keeping, tax compliance, and financial transparency, thereby contributing to formalisation objectives.

D. International Comparability

Raising thresholds also narrows the gap between India’s SME categorisation and international practice, where small and medium enterprises often operate at higher absolute size metrics while still receiving proportionate compliance relief.

7. Critical Assessment

A. Adequacy of Safeguards

The continued exclusion of holding and subsidiary companies and Section 8 entities from the small company ambit is a crucial safeguard, recognising the distinct governance and stakeholder complexities of group structures and non-profit bodies. However, concerns may arise in relation to:

- Private companies with substantial external debt or wide, albeit private, investor bases that nevertheless qualify as small companies;
- High-growth technology or platform enterprises where operational risk and stakeholder impact may be disproportionate to size measured merely by capital and turnover.

Consideration could be given, in the future, to incorporating additional qualitative or risk-based criteria into the small company definition or related exemptions.

B. Information Asymmetry and Minority Protection

Reduced disclosure, lighter audit reporting, and simpler governance procedures may, in some instances, heighten information asymmetry between controlling shareholders and minority investors, creditors, or counterparties. While most small companies are closely held, the increasing use of private companies as vehicles for venture capital, private equity, and employee stock ownership underscores the need for adequate transparency.

A possible middle path could include graduated disclosure obligations tied to parameters such as number of shareholders, debt exposure, or sectoral risk profile, even within the small company category.

C. Dynamic Threshold Management

Delegating threshold determination to rule-making enables flexibility, but also requires periodic empirical assessment of the impact of such thresholds. Overly generous thresholds could dilute regulatory oversight; overly restrictive ones may fail to deliver the intended relief. Continuous data-driven review—on compliance cost savings, corporate governance outcomes, and enforcement statistics—would strengthen the legitimacy of further refinements.

8. Conclusion

The December 2025 amendments to the small company definition under Section 2(85) of the Companies Act, 2013 represent a significant milestone in India's corporate law reform trajectory. By substantially enlarging the financial thresholds for qualification, the legislature has extended the reach of a simplified compliance regime to a broader spectrum of enterprises, particularly within the MSME and startup ecosystems.

The legal architecture—anchored in a combination of statutory definition and rule-based thresholds—demonstrates a conscious legislative commitment to proportional regulation and ease of doing business. At the same time, the persistent exclusion of group entities and non-profits, and the retention of core obligations such as statutory audit and filing of financial statements, reflect a continued concern for baseline standards of governance and transparency.

Going forward, the effectiveness of the small company regime will depend on sustained empirical monitoring and, where necessary, targeted recalibration. Balancing the twin imperatives of regulatory facilitation and stakeholder protection will remain central to the evolution of this important legal category. As more entities move into and out of small company status with growth and restructuring, issues of transition management, risk-sensitive regulation, and minority protection will assume increasing prominence in the jurisprudence and practice of Indian corporate law.