



भारतीय रिज़र्व बैंक  
RESERVE BANK OF INDIA  
www.rbi.org.in

RBI/2020-2021/10

FIDD.MSME & NFS.BC.No.3/06.02.31/2020-21

July 2, 2020

The Chairman/ Managing Director/Chief Executive Officer  
All Commercial Banks  
(including Small Finance Banks, Local Area Banks and Regional Rural Banks)  
All Primary (Urban) Co-operative Banks/State Co-operative Banks  
/ District Central Co-operative Banks  
All-India Financial Institutions  
All Non-Banking Financial Companies

Dear Sir / Madam,

**Credit flow to Micro, Small and Medium Enterprises Sector**

Please refer to our [circular RPCD.PLNFS.BC.No.63/06.02.31/2006-07 dated April 4, 2007](#) containing definition of Micro, Small and Medium Enterprises as per Section 7 (l) of the Micro Small and Medium Enterprises Development Act, 2006.

2. In this connection, we inform that Government of India (GoI), vide [Gazette Notification S.O. 2119 \(E\) dated June 26, 2020](#), has notified new criteria for classifying the enterprises as Micro, Small and Medium enterprises. The new criteria will come into effect from July 1, 2020. The details are as under:

**2.1 Classification of enterprises**

An enterprise shall be classified as a Micro, Small or Medium enterprise on the basis of the following criteria, namely:

- (i) a *micro enterprise*, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees;
- (ii) a *small enterprise*, where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees; and
- (iii) a *medium enterprise*, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees

**2.2 Composite criteria of investment and turnover for classification**

- (i) A composite criterion of investment and turnover shall apply for classification of an enterprise as micro, small or medium.

- (ii) If an enterprise crosses the ceiling limits specified for its present category in either of the two criteria of investment or turnover, it will cease to exist in that category and be placed in the next higher category but no enterprise shall be placed in the lower category unless it goes below the ceiling limits specified for its present category in both the criteria of investment as well as turnover.
- (iii) All units with Goods and Services Tax Identification Number (GSTIN) listed against the same Permanent Account Number (PAN) shall be collectively treated as one enterprise and the turnover and investment figures for all of such entities shall be seen together and only the aggregate values will be considered for deciding the category as micro, small or medium enterprise.

### **2.3 Calculation of investment in plant and machinery or equipment**

- (i) The calculation of investment in plant and machinery or equipment will be linked to the Income Tax Return (ITR) of the previous years filed under the Income Tax Act, 1961.
- (ii) In case of a new enterprise, where no prior ITR is available, the investment will be based on self-declaration of the promoter of the enterprise and such relaxation shall end after the 31st March of the financial year in which it files its first ITR.
- (iii) The expression "plant and machinery or equipment" of the enterprise, shall have the same meaning as assigned to the plant and machinery in the Income Tax Rules, 1962 framed under the Income Tax Act, 1961 and shall include all tangible assets (other than land and building, furniture and fittings).
- (iv) The purchase (invoice) value of a plant and machinery or equipment, whether purchased first hand or second hand, shall be taken into account excluding Goods and Services Tax (GST), on self-disclosure basis, if the enterprise is a new one without any ITR.
- (v) The cost of certain items specified in the *Explanation I* to sub-section (1) of section 7 of the Act shall be excluded from the calculation of the amount of investment in plant and machinery.

### **2.4 Calculation of turnover**

- (i) Exports of goods or services or both, shall be excluded while calculating the turnover of any enterprise whether micro, small or medium, for the purposes of classification.

- (ii) Information as regards turnover and exports turnover for an enterprise shall be linked to the Income Tax Act or the Central Goods and Services Act (CGST Act) and the GSTIN.
- (iii) The turnover related figures of such enterprise which do not have PAN will be considered on self-declaration basis for a period up to 31st March, 2021 and thereafter, PAN and GSTIN shall be mandatory.

2.5 In case of an upward change in terms of investment in plant and machinery or equipment or turnover or both, and consequent re-classification, an enterprise will maintain its prevailing status till expiry of one year from the close of the year of registration. In case of reverse-graduation of an enterprise, whether as a result of re-classification or due to actual changes in investment in plant and machinery or equipment or turnover or both, and whether the enterprise is registered under the Act or not, the enterprise will continue in its present category till the closure of the financial year and it will be given the benefit of the changed status only with effect from 1st April of the financial year following the year in which such change took place. Other aspects relating to registration of enterprises, grievance redressal, etc. are mentioned in the [Gazette Notification S.O. 2119 \(E\) dated June 26, 2020](#).

3. The above instructions supersedes our earlier guidelines dated April 4, 2007, except paragraph 6 relating to delayed payment to micro and small enterprises.

4. We advise you to initiate necessary action for reclassification of enterprises as per the new definition w.e.f July 1, 2020 and issue necessary instructions to your branches/controlling offices in this regard, at the earliest.

Yours faithfully

(Sonali Sen Gupta)  
Chief General Manager