

# **Tensions Rise Over MSME Reclassification in Budget 2025**

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## **MSME Reclassification Latest News**

- The Union Budget 2025 introduced a significant revision in the classification criteria for micro, small, and medium enterprises (MSMEs), triggering strong reactions from various industry stakeholders.

## Overview of the Classification Changes

- Effective April 1, 2025, the **investment and turnover limits for all MSME categories have been increased substantially**.
- Specifically, the investment cap has been raised by 2.5 times, while turnover thresholds have been doubled. This means:
  - **Micro enterprises:** now include firms with investment up to ₹2.5 crore (from ₹1 crore) and turnover up to ₹10 crore (from ₹5 crore)
  - **Small enterprises:** ₹25 crore investment (up from ₹10 crore), ₹100 crore turnover
  - **Medium enterprises:** ₹125 crore investment (up from ₹50 crore), ₹500 crore turnover
- The government believes these changes will help businesses scale operations, access capital more easily, and contribute to employment generation.

## Support for the Revised Norms

- Industry groups such as the **Federation of Indian Micro and Small & Medium Enterprises (FISME)** have welcomed the revised limits.
- FISME Secretary General argued that the revision was necessary to:
  - Reflect inflationary pressures and rising input costs
  - Allow medium enterprises to grow vertically rather than duplicating operations horizontally
  - Attract greater foreign investment in MSMEs without losing access to government benefits
- He also noted that Indian businesses often avoid growth beyond small-scale classification due to fear of losing incentives.
- The revised norms aim to counter this trend by making the classification more inclusive.

## Concerns Raised by Micro and Small Enterprise Bodies

- On the other hand, various organisations representing micro and small enterprises, have voiced strong opposition to the move.
- In a letter to the Ministry of MSME, the organizations warned that:
  - Medium enterprises, which constitute less than 0.01% of the MSME base, might monopolize benefits meant for the 99.99% micro and small units.
  - Public procurement quotas (25% for micro and small units) and credit access under priority sector lending will disproportionately favour larger players.
  - Micro units already struggle to access credit, as banks often prefer lending to medium units to meet their targets with fewer clients.
- Organisations have also demanded that the earlier classification be restored or a separate department be created for micro and small enterprises to safeguard their interests.

## Broader Implications for the MSME Sector

- The revised classification is expected to significantly affect the structure and support systems within the MSME ecosystem. Key issues at stake include:

- **Public Procurement Access**

- With medium enterprises now falling into the “small” bracket, competition for public contracts under the mandated 25% procurement quota may become more intense, potentially side-lining micro units.

- **Credit Distribution**

- Despite formal provisions for microenterprise credit (8% of total priority sector lending), practical access remains limited. Larger units are more attractive to banks due to lower risk and higher ticket sizes.

- **Post-Pandemic Recovery Challenges**

- Stakeholders contend that recovery from the COVID-19 impact remains uneven, and the timing of the revision is premature.
- The last National Sample Survey data on MSMEs dates back to 2015-16, raising concerns about policy decisions being made without updated evidence.

- **Missing Middle Problem**

- The policy aims to bridge the “missing middle” by encouraging small firms to scale up. Many firms have historically stayed small to retain government benefits, leading to inefficient horizontal expansion. The new limits intend to reverse that trend.

## **Future Considerations**

- As India pushes for a robust and globally competitive MSME sector, periodic policy recalibrations are inevitable.
- However, it remains crucial that the voices of micro and small businesses, the backbone of India’s industrial landscape, are not drowned out by the louder voices of larger firms.
- The success of the reclassification will depend on how equitably the benefits are distributed and whether genuine efforts are made to address access to credit, market linkages, and ease of doing business at the grassroots level.

## **MSME Classification 2025 FAQs**

**Q1.** What are the new thresholds for MSME classification in 2025?

**Ans.** The investment and turnover limits have been raised by 2.5 times and 2 times, respectively, across all MSME categories.

**Q2.** Why are micro and small enterprises opposing the new classification?

**Ans.** They fear that medium enterprises will capture benefits meant for smaller firms, including credit and public procurement opportunities.

**Q3.** What benefits do MSMEs receive under the current policy?

**Ans.** MSMEs enjoy priority sector lending access, public procurement quotas, and various subsidies.

**Q4.** How does the new classification impact credit availability?

**Ans.** Smaller firms worry that banks will prefer lending to larger firms within the MSME definition to meet lending targets efficiently.

**Q5.** What is the “missing middle” in India’s MSME ecosystem?

**Ans.** It refers to the lack of medium-sized enterprises, as firms avoid vertical growth to retain MSME benefits, leading to fragmentation and inefficiency.

**Source:** IE

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