



RESERVE BANK OF INDIA
Foreign Exchange Department
Central Office
Mumbai - 400 001

RBI/2013-14/498

February 20, 2014

A.P. (DIR Series) Circular No.107

To

All Category – I Authorised Dealer Banks

Madam / Sir,

Foreign Direct Investment (FDI) into a Small Scale Industrial Undertakings (SSI) / Micro & Small Enterprises (MSE) and in Industrial Undertaking manufacturing items reserved for SSI/MSE

Attention of Authorised Dealer Category – I (AD Category-I) banks is invited to Schedule 1 of the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 notified by the Reserve Bank vide [Notification No. FEMA. 20/2000-RB dated 3rd May 2000](#), as amended from time to time.

2. In terms of the Schedule 1 of the Notification, *ibid*, an Indian company which is a small scale industrial unit and which is not engaged in any activity or in manufacture of items included in Annex A, may issue shares or convertible debentures to a person resident outside India, to the extent of 24% of its paid-up capital provided that such company may issue shares in excess of 24% of its capital if:

- (a) it has given up its small scale status,
- (b) it is not engaged or does not propose to engage in manufacture of items reserved for small scale sector, and

(c) it complies with the ceilings specified in Annex B to Schedule I of the Notification.

3. With the promulgation of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, the extant policy for foreign direct investment (FDI) in Small Scale Industrial unit and in a company which has de-registered its small scale industry status and is not engaged or does not propose to engage in manufacture of items reserved for small scale sector, has since been reviewed and it has been decided that;

- (i) a company which is reckoned as Micro and Small Enterprises (MSE) (earlier Small Scale Industries) in terms of MSMED Act, 2006 and not engaged in any activity/sector mentioned in Annex A to schedule 1 to the Notification, *ibid* may issue shares or convertible debentures to a person resident outside India, subject to the limits prescribed in Annex B to schedule 1, in accordance with the entry routes specified therein and the provision of Foreign Direct Investment Policy, as notified by the Ministry of Commerce & Industry, Government of India, from time to time.
- (ii) any Industrial undertaking, with or without FDI, which is not an MSE, having an industrial license under the provisions of the Industries (Development & Regulation) Act, 1951 for manufacturing items reserved for manufacture in the MSE sector may issue shares in excess of 24 per cent of its paid up capital with prior approval of the Foreign Investment Promotion Board of the Government of India.

4. Further, in terms of the provisions of MSMED Act, (i) in the case of the enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951, a micro enterprise means where the investment in plant and machinery does not exceed twenty five lakh rupees; a small enterprise means where the investment in plant and machinery is more than twenty five

lakh rupees but does not exceed five crore rupees; (ii) in the case of the enterprises engaged in providing or rendering services, a micro enterprise means where the investment in equipment does not exceed ten lakh rupees; a small enterprise means where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees.

5. [Copy of Press Note No. 6\(2009\) dated September 4, 2009](#) issued by Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce & Industry, Government of India in this regard is enclosed.

6. AD Category - I banks may bring the contents of the circular to the notice of their customers/constituents concerned.

7. Reserve Bank has since amended the Regulations and notified vide [Notification No. FEMA. 230/2012-RB dated May 29, 2012](#), notified vide. G.S.R. No.797(E) dated October 30, 2012 read with Corrigendum dated September 10, 2013 notified vide. G.S.R. No.624(E) dated September 12, 2013 .

8. The directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

Yours faithfully,

(Rudra Narayan Kar)
Chief General Manager In-Charge