

April 2025

# **Proposed expansion of fast-track merger framework for simplifying corporate restructuring**

In line with the announcement made by the Ministry of Finance under the Union Budget 2025–26, the Ministry of Corporate Affairs ("**MCA**"), through its public notice dated April 4, 2025 ("**Notice**"), has proposed significant amendments to the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016 ("**CAA Rules**"). The proposed amendment aims to expand the scope of the fast-track merger process under Section 233 of the Companies Act, 2013 ("**CA 2013**"), with the objective of simplifying corporate restructuring and promoting ease of doing business in India.

The proposed amendments are in draft form and the MCA has invited comments/suggestions from the relevant stakeholders on the Notice, which can be submitted by May 5, 2025, *via* the e-consultation module on MCA's website.

### **Current framework**

Presently, Section 233 of the CA 2013, read with Rule 25 of the CAA Rules, allows certain classes of companies to undertake mergers under a simplified fast-track process bypassing the lengthy National Company Law Tribunal ("**NCLT**") approval route. As per the said Section, a merger or amalgamation between the following classes of companies currently fall within the fast-track merger process:

- 1. 2 (two) or more small companies; or
- 2. a holding company and its wholly-owned subsidiary company; or
- 3. 2 (two) or more start-up companies; or
- 4. 1 (one) or more start-up companies with 1 (one) or more small companies.

The categories mentioned in Points (3) and (4) above were added in February 2021, when the MCA expanded the scope of Rule 25 of the CAA Rules to include start-ups under the fast-track merger framework. The proposed amendment now marks another step in liberalising corporate restructuring, proposing to include more classes of companies within the ambit of the fast-track merger process.

#### **Proposed amendment**

The Notice proposes expanding the scope of Section 233 of CA, 2013 (read with Rule 25 of the CAA Rules) to the following categories, thus allowing such transactions to be undertaken under the fast-track merger process:

- Merger of 1(one) or more unlisted companies (excluding Section 8 companies): The Notice provides that unlisted companies having borrowings of less than INR 50,00,000 (Indian Rupees fifty crore) from any banks, financial institutions or any other corporates, and have never defaulted in the repayment of such borrowings, would now be permitted to merge under the fast-track process, allowing quicker completion of such transactions. To avail this benefit, a certificate from the company's auditor must be attached to the application under Section 233(2) of CA 2013, stating that the company meets the conditions mentioned above.
- 2. Merger of holding companies (both listed and unlisted) with 1 (one) or more of its unlisted subsidiary(ies): In line with the recommendation of the 2022 Company Law Committee Report, the Notice also provides that a merger involving a holding company and one or more of its unlisted subsidiary(ies) would also be allowed to be undertaken under the fast-track process. Presently, the merger of only a wholly-owned subsidiary with its holding company is covered within the scope of fast-track mergers. The proposed amendment aims to relax the current position and extend the eligibility to any unlisted subsidiary (even if it is not a wholly-owned subsidiary). Hence, liberalising subsidiary mergers by obviating the need for NCLT nod for such transactions.
- 3. **Merger of different subsidiaries of the same holding company**: Presently, any merger between fellow subsidiaries of the same holding company is not covered under Section 233 of CA 2013. With the proposed amendments, such mergers between fellow subsidiaries of the same group would also get covered under Section 233 of CA 2013 and, accordingly, will be eligible to avail the fast-track merger process benefits. The proposed amendments places group transactions on the same level as a merger between holding and unlisted subsidiary companies, thereby, fostering efficient internal restructuring. However, it may be noted that the proposed amendment aims to cover only unlisted fellow subsidiaries under this proposed classification.
- 4. **Merger of a company incorporated outside India with its wholly-owned subsidiary in India**: In a bid to encourage reverse flipping, the MCA has proposed integrating Rule 25A (which governs such mergers) of the CAA Rules into Rule 25 of the CAA Rules, thereby consolidating fast-track merger provisions into a single rule for clarity and ease of compliance.

#### Conclusion

The proposed amendments align with the government's ongoing efforts to reduce regulatory obstacles, as outlined in the Union Budget 2025–26. If implemented, these changes could significantly simplify intra-group restructurings, make merger transactions more efficient and help saving time. By extending the fast-track process to a wider range of companies, the proposed changes would reduce transaction timelines, mitigate procedural complexity, and ease the burden on NCLT. This, in turn, would facilitate quicker execution and help free up judicial bandwidth.

Overall, the proposed amendment reflects the MCA's long-term commitment to a progressive regulatory outlook, aimed at fostering a more agile and responsive corporate framework. It represents a positive step towards enabling smoother and more efficient business consolidations, encouraging strategic growth, and enhancing investor confidence in the long-term stability and competitiveness of the Indian economy.

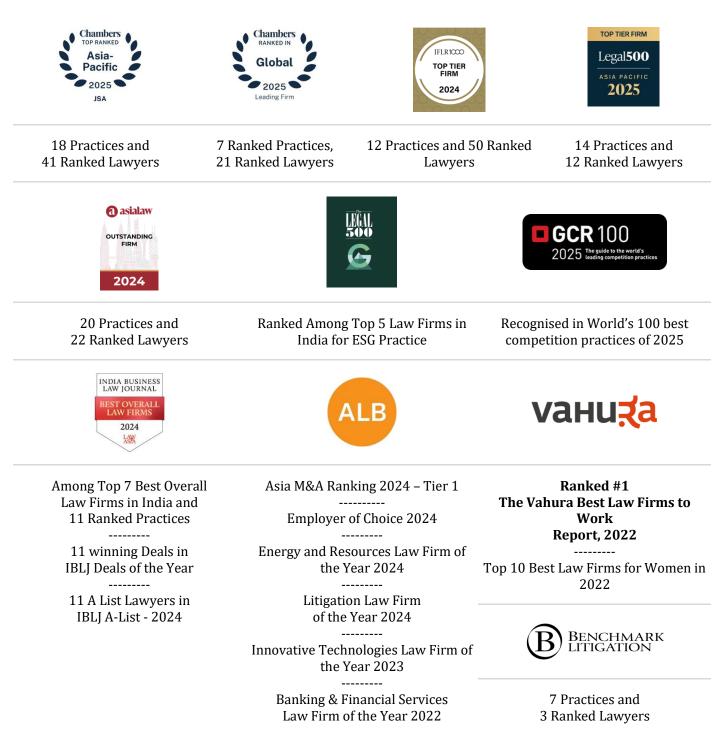
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