Newsletter

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Welcome to the 12th edition of the our Newsletter. We are pleased to continue our efforts by keeping our clients and readers informed about important legal developments, emerging trends, and practical insights from across the legal landscape.

In this edition, we bring you concise updates with expert perspectives, and thoughtful commentary on matters that impact businesses and individuals alike. Our aim is to simplify complex news upon the legal issues, with highlights on regulatory changes, and share knowledge that supports informed decision-making in an ever-evolving legal and commercial environment.

As always, this newsletter reflects our commitment to clarity with relevance and professional excellence. We thank you for your continued trust and engagement, and we look forward to sharing valuable insights with you in this edition. Happy Reading.

OVERVIEW

Budget Boost for Startups and MSMEs: Key Takeaways

- Brief insights on the latest opportunities in business.

India - EU FTA and the changing Landscapes of International Trade Law

- The "Mother of All Deals " : Explained

Data Retention vs. Regulatory Record - Keeping: RBI Directions vs. DPDPA Delegation Rights - A Compliance Crossroads for NBFCs

- A overview of how NBFCs can balance Data and Regulatory Record.

BUDGET BOOST FOR STARTUPS AND MSME(S): KEY TAKEAWAYS

KEY HIGHLIGHTS

- Rs. 5 lakh crore credit guarantee expansion for MSMEs, with 90% coverage for micro units.
- Rs. 10,000 crore Venture Debt Fund for startups at seed-to-series A stages.
- Five-year extension of 100% tax holiday for 50,000 startups under Section 80-IAC of the Income Tax Act, 1961.
- Presumptive taxation threshold raised to Rs. 3 crore for MSMEs; GST composition eased.
- Rs. 1 lakh crore Startup India Seed Fund and 50 new MSME clusters.
- Decriminalisation of 50 minor MSME offences; unified compliance portal with 45-day payment enforcement.

In an economy where innovation and small-scale enterprise form the bedrock of growth, the Union Budget 2026 delivers a measured yet potent infusion of support for startups and Micro, Small, and Medium Enterprises (MSMEs). Presented amid global uncertainties and domestic calls for economic resilience, this budget eschews populist excess in favour of targeted reforms. These measures, embedded within a broader fiscal framework aiming for a 4.5% deficit-to-GDP ratio, recalibrate incentives, ease compliance burdens, and fortify credit pipelines. For legal practitioners advising these entities, the takeaways are not merely fiscal—they are contractual, regulatory, and strategic imperatives that demand prompt action.

At its core, the budget signals a maturing ecosystem. Startups, classified under the DPIIT's recognition framework, and MSMEs, governed by the MSMED Act, 2006, stand to gain from streamlined definitions and enhanced protections. This alignment addresses long-standing frictions, such as classification disputes that have plagued Udyam registrations. The government's pledge to digitize 100% of MSME credit assessments by FY27, leveraging AI-driven platforms, mitigates risks of misclassification and ensures equitable access to priority sector lending. This translates to enforceable covenants in loan agreements, where lenders must now justify denials under penalty of regulatory scrutiny from RBI.

CREDIT EXPANSION: UNLOCKING CAPITAL WITH SAFEGUARDS

A cornerstone of the budget is the Rs. 5 lakh crore credit guarantee enhancement for MSMEs, expanding the existing Emergency Credit Line Guarantee Scheme (ECLGS) into a perennial facility. This is no mere extension; it introduces tiered guarantees up to 90% for micro enterprises with turnover below Rs. 5 crore, directly addressing the credit crunch that afflicted 40% of MSMEs post-pandemic, as per RBI data. For startups, a new Rs. 10,000 crore Venture Debt Fund, seeded by SIDBI, targets seed-to-Series A stages, with disbursals tied to DPIIT certification.

From a legal vantage, these instruments fortify borrower positions. MSMEs can now invoke statutory presumptions under Section 7 of the MSMED Act for delayed payments, bolstered by a proposed amendment mandating e-invoicing integration for all priority loans. Startups benefit from clarified tax pass-through status for venture debt, reducing disputes under Section 194A of the Income Tax Act. Counsel must advise clients to structure debt covenants with force majeure clauses attuned to these guarantees, anticipating disputes in insolvency proceedings under the IBC, 2016. This credit push, projected to unlock Rs. 20 lakh crore in lending over three years, demands rigorous due diligence to navigate lender-imposed conditions precedent.

TAX RELIEF: SIMPLIFYING COMPLIANCE AND INCENTIVES

Taxation reforms emerge as the budget's scalpel, carving out relief without undermining revenue integrity. Startups gain a five-year extension of the 100% tax holiday under Section 80-IAC, now applicable to 50,000 additional entities, provided they achieve positive EBITDA within three years, a litmus test for viability. MSMEs see presumptive taxation thresholds hiked to Rs. 3 crore (from Rs. 2 crore), with turnover-based exemptions extended to composition schemes under GST.

These changes carry profound legal weight. The extension nullifies uncertainties from the Delhi High Court's ruling in *XYZ Startup v. ITO (2025)*, which had curtailed holiday claims for loss-making ventures. For MSMEs, the presumptive regime curtails audit mandates under Section 44AD, slashing compliance costs by an estimated 30%. Yet, caveats abound: startups must navigate angel tax abolition only for DPIIT-registered investors, per the 2024 amendment, while MSMEs face clawback risks if reclassified post-turnover spikes. Practitioners should draft investment agreements with indemnity clauses against retrospective tax notices, leveraging the budget's commitment to a single-window dispute resolution portal under the Faceless Assessment Scheme.

INNOVATION AND INFRASTRUCTURE: BUILDING ENDURING FRAMEWORKS

Beyond finance, the budget invested in an ecosystem enables are

A Rupees one lakh crore Startup India Seed Fund Corpus, disbursed via incubators, prioritizes deep-tech sectors like agritech and fintech, with grants convertible to equity under SEBI's Startup Warehouse norms. MSMEs receive infrastructure boosts through 50 new clusters under the PM MITRA scheme, complete with plug-and-play facilities and last-mile connectivity.

Legally, these initiatives reshape governance. Incubators must now adhere to fiduciary standards under the new DPIIT guidelines, exposing them to shareholder derivative suits if mismanaged. MSME clusters introduce special economic zone-like exemptions from labour laws, harmonized via a model standing order, but with mandatory worker welfare funds. This necessitates updated employment contracts, compliant with the Labour Codes, 2020, to preempt industrial disputes. For startups, the budget's R&D tax credit stood at 150% deduction on incremental spends. These are pairs with IP fast-tracking under the Patent Rules, 2024, urging early filings to secure first-mover advantages in litigation-heavy domains.

REGULATORY EASING: PAVING THE PATH FORWARD

Regulatory streamlining forms the budget's quiet revolution. The decriminalization of 50 minor MSME offences under the MSMED Act reduces penal provisions to compounding offences, while startups get a three-year moratorium on angel investment compliance. A unified MSME portal integrates Udyam, GeM, and SAMADHAN, enforcing 45-day payment timelines with interest at 3x bank rate.

These reforms mitigate judicial overload, echoing the Supreme Court's directive in *GVK Industries v. ITO (2021)* for non-adversarial compliance. Yet, they impose due diligence on directors: startups must maintain robust KYC for investors to avail benefits, lest they face disqualification under Companies Act, 2013. MSMEs gain leverage in supplier disputes, with adjudication timelines capped at 90 days.

CONCLUSION

In sum, this budget is a covenant of continuity, fortifying startups and MSMEs against volatility. It demands proactive legal strategy from renegotiating credit terms to fortifying IP portfolios. Entities that align swiftly will not merely survive but thrive in India's $5 trillion economy trajectory.

INDIA–EU FTA AND THE CHANGING LANDSCAPE OF INTERNATIONAL TRADE LAW

INTRODUCTION

The "*Mother of All Deals*", or what some may officially call India–European Union Free Trade Agreement (FTA) concluded on 27 January 2026. After nearly two decades of fitful negotiations and calibrations, the fourth-largest economy of the world and the second most prosperous economic block have finally stitched together a comprehensive economic pact that is less of a routine trade arrangement and more like a strategic reset. The trade deal is signaling towards a decisive shift in how two major economic powers choose to engage with each other and in the process, they set the tone for a new phase of bilateral commerce in what some call is a "*New World Order*".

India and the European Union together account for a quarter of the global GDP, which positions their economic engagement as the marquee event that the world is looking upon. The European Union is one of India's largest trading partners with annual trade in goods and services running into hundreds of billions of dollars. This new FTA is bound to solidify the already flourishing relationship by negating or entirely eliminating tariffs across a range of goods and services, resulting in a further expansion of emerging domains and the cross-border mobility of professionals. This agreement further underlines the commitment that both the economies have towards a rule-based trading system, and reinforces their position with the dynamic international trade law.

WHAT THE INDIA–EU FTA COVERS:

The scope of this FTA extends well beyond tariff reductions. Under the proposed agreement, the EU shall reduce or all together eliminate tariffs on over 96% of the goods that they export to India. These reductions are applicable to a wide variety of products including machinery, automobiles, pharmaceuticals, and chemicals. To reciprocate this, India has granted EU preferential or zero-duty access to a major chunk of its export basket, particularly in sectors such as textiles, leather, gems and jewellery, chemicals, and marine products. This level of liberalisation in the levying of tariffs represents one of the most significant market access commitments undertaken by India with any of its trading partners ever before.

The proposed FTA also encompasses trade beyond the realm of goods; and is also applicable to services and investments. It does so by providing enhanced market access for Indian IT, professional services, transport, and financial sectors. The FTA also includes key provisions that aim at protecting investments and mobilising skilled professionals across borders easily. The Agreement is a beaming example of modern trade agreements that in increasingly address cross-border services and human capital, due to their significance in today's day and age. Emerging sectors such as customs procedures, digital trade, and MSMEs are also covered under the FTA, as it aligns with the major aim of the agreements which is lowering the trade barriers and promoting the alignment of regulatory and operational standards.

CONTEMPORARY CONTEXT AND STRATEGIC IMPLICATIONS:

India and EU are bringing this agreement to fruition at the tumultuous time when the global trade order is passing through considerable strain and morphing anew. WTO led traditional-

multilateralism which was adopted post the second world war has recently faced challenges from rising protectionist policies and tariff escalation by major economies. These challenges have rerouted the reliance from multilateralism to regional and bilateral trade agreements. At the same time, non-tariff measures such as environmental standards, carbon border adjustment mechanisms, and evolving digital regulations have started playing a decisive role in shaping world trade. And the India-EU FTA reflects the contemporary trade realities against this backdrop. The FTA not only incorporates 21st century issues such as digital trade and services liberalisation into its legal framework, but also addresses sustainability and regulatory convergence in line with broader international shifts toward trade-linked sustainable development.

The Free Trade Agreement is not bound by its immediate commercial relevance, rather it carries wider implications for international trade law. It reinstates the growing centrality of regional and bilateral agreements while delivering a deeper and more comprehensive commitment than those achieved through multilateral negotiations. It also turns the tide away from tariff-centric trade rules and averts them towards a more expansive regulatory agenda. The significant point to note is that while multilateral negotiations under the WTO have stalled, this FTA operates in a complementary manner by reinforcing open markets, legal certainty, and predictable trade rules.

CRITICISMS AND DOMESTIC CONCERNS

While every rose is accompanied by a thorn, this Agreement is no different, and it too is accompanied by certain flaws. One of the major flaws being fickle nature of European Union with regards to trade, particularly seen at the dawn of the new year when they stepped back from the Mercosur agreement with Latin American countries following farmers' protests in Paris, despite the deal being under negotiation for nearly twenty-five years. This incident has fuelled scepticism about the durability and resilience of the India-EU FTA. Also, the fact that must be noted is that nothing is set in stone yet, as the agreement will be subject to detailed scrutiny and approval processes within both the Indian Parliament and the European Parliament. And while these discussions take place in the parliament, they may result in specific provisions being refined, diluted, or even reworked altogether.

The proposed agreement has further attracted criticism from certain sections of domestic industries and farmer's groups too. The cautions raised by these critics are that the reduced tariff on certain processed foods and industrial goods could expose the local producers to competition from subsidized EU products, which may be detrimental to their business. Additionally, some analysts have expressed concerns over the harmonization of intellectual property standards too. These provisions may bind India to EU like IPR laws, which could be difficult for Indian firms to adopt swiftly, with possible implications for long-term competitiveness due to a strong head start achieved by the EU manufacturers. These debates also bring a major concern into the spotlight, which is the striking of an appropriate balance between trade liberalization and the protection of domestic socioeconomic interests.

CONCLUSION

The India-EU FTA is not just any other run of the mill trade deal, it is a milestone in India's international economic engagement. A trade deal of this magnitude is a reflection of the changing contours of international trade law. This agreement not only integrates conventional tariff liberalization with contemporary legal disciplines, but also signals a maturation in how global trade agreements are framed by balancing different facets of modern economies. But one must not forget that the real test still lies ahead. It will only be cleared once the policymakers and businesses translate legal commitments into economic opportunities. Once the FTA implementation unfolds subject to parliamentary approvals and ratification processes, the major concern shall lie in ensuring that the gains are inclusive across sectors and communities.

DATA RETENTION VS. REGULATORY RECORD - KEEPING: RBI DIRECTIONS VS. DPDPA DELETION RIGHTS - A COMPLIANCE CROSSROADS FOR NBFCS

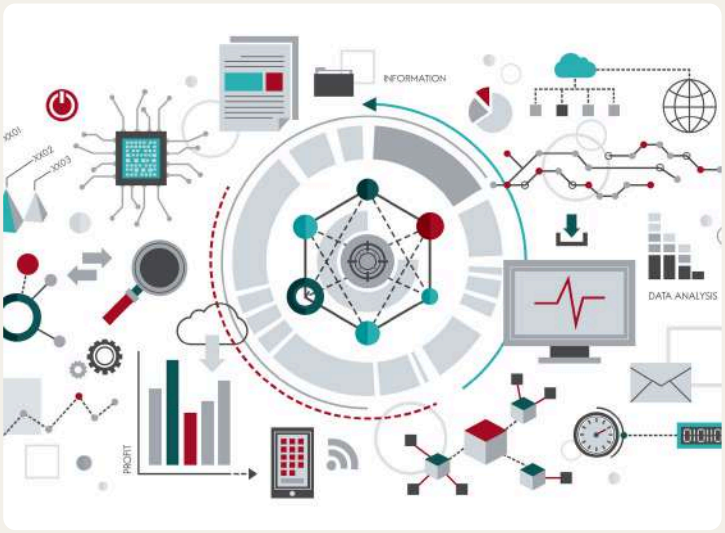
ABSTRACT

India's financial sector is witnessing a major regulatory shift as data protection laws begin to intersect with traditional financial record keeping requirements. Non-Banking Financial Companies (NBFCs), which have historically followed strict documentation retention rules under the Reserve Bank of India (RBI), must now review their data storage practices considering of the Digital Personal Data Protection Act, 2023 (DPDP Act) and the Digital Personal Data Protection Rules, 2025. This article examines the conflict between mandatory record retention and emerging deletion rights, and discusses how NBFCs can balance both frameworks.

REGULATORY ARCHITECTURE: DUAL COMPLIANCE BURDEN

NBFCs function in a highly regulated environment where maintaining records is essential for financial supervision. RBI regulations focus on ensuring audit trails, tracking credit history, preventing fraud, and supporting anti-money laundering investigations. As a result, several directions require NBFCs to retain customer and transaction data for long periods.

For instance, the Master Direction - Know Your Customer (KYC) Direction, 2016 requires NBFCs to maintain identity and transaction records for at least five years after the customer relationship ends. Similarly, the RBI Master Direction for Systemically Important NBFCs, 2016 requires preservation of loan files, sanction documents, and repayment records for supervisory review. Even third party service providers are covered under the Outsourcing of Financial Services Directions, 2017, which require protection and availability of customer data. Together, it becomes a norm which create an ecosystem of long-term data storage.



DPDP Act, 2023: Purpose Limitation & Erasure Mandate

The DPDP Act introduces a different approach focused on data minimization and limited retention. Under Section 8(7), personal data must be erased once the purpose for which it was collected is completed, or if the individual withdraws consent, unless retention is required by law. This creates a legal obligation to delete data when it is no longer necessary.

The Act also grants individuals (Data Principals) the right to request erasure of their personal data in certain situations. For NBFCs, this means borrower data cannot be stored forever; merely as a precaution, it must be linked to a valid and ongoing purpose.

The DPDP Rules, 2025 provide operational clarity on how deletion must be implemented. Rule 8 requires Data Fiduciaries to erase personal data after the purpose of processing is completed, unless retention is legally mandated. The Rules also require prior notice to individuals before deletion so they may continue engagement if they choose.

DPDP RULES, 2025: OPERATIONALISING RETENTION LIMITS

The DPDP Rules, 2025 provide operational clarity on how deletion must be implemented. Rule 8 requires Data Fiduciaries to erase personal data after the purpose of processing is completed, unless retention is legally mandated. The Rules also require prior notice to individuals before deletion so they may continue engagement if they choose.

Further, the Rules distinguish between personal data and system data. While personal data must be deleted, processing logs and system records must be retained for at least one year for audit and cybersecurity purposes. This creates an additional compliance layer for NBFCs managing digital lending systems.

THE CORE CONFLICT: FINANCIAL SURVEILLANCE VS PRIVACY FINALITY.

The conflict between RBI and DPDPA frameworks becomes evident throughout the loan lifecycle. KYC documents, loan agreements, call recordings, and recovery records are all retained for regulatory and legal readiness under RBI norms. However, under DPDPA principles, once a loan is closed and obligations are fulfilled, the original purpose of data collection is complete.

This creates a philosophical divide. RBI regulations prioritise financial system stability and investigative readiness, while DPDPA focuses on individual privacy and storage limitation. Without a harmonised approach, NBFCs risk non-compliance under either regime.

STATUTORY HARMONISATION: THE "LEGAL OBLIGATION" SAFE HARBOUR

Importantly, the DPDPA framework recognises this conflict and provides a solution. The obligation to delete data does not apply where retention is required under any applicable law. Therefore, NBFCs may continue retaining KYC, AML, and loan records where mandated by RBI or other statutes.

However, this exemption is limited. It applies only to data necessary for legal compliance. Data collected for marketing, analytics, or convenience cannot be retained indefinitely and must be deleted once its purpose ends.

PRACTICAL COMPLIANCE MODEL FOR NBFCS

To balance both laws, NBFCs should adopt structured data governance practices. First, they should classify data into categories such as regulatory, contractual, and consent based data. Second, each dataset should be mapped to its legal basis for retention. Third, automated systems should ensure deletion requests are implemented across internal systems and third party processors. Finally, retention schedules should align RBI requirements, legal limitation periods, and DPDPA deletion triggers.

IT GOVERNANCE & SYSTEM LEVEL RETENTION CONTROLS

From an operational standpoint, the IT departments of NBFCs will play a central role in implementing retention and deletion compliance. RBI's IT governance and cybersecurity framework already requires NBFCs to maintain system integrity, access logs, audit trails, and transaction records to support supervision, forensic reviews, and fraud monitoring. However, under the DPDPA regime, IT teams must now recalibrate system architecture to ensure that personal data is not retained indefinitely where no legal mandate exists. This requires configuration of retention timers, automated deletion protocols, archival segregation, and role based access controls within core lending systems and digital platforms. IT functions will therefore

act as the execution arm of legal and compliance policies, ensuring that regulatory record-keeping requirements are preserved while privacy driven erasure obligations are simultaneously operationalised in system design.

SIGNIFICANT DATA FIDUCIARY (SDF) IMPLICATIONS

Large NBFCs classified as Significant Data Fiduciaries will face additional scrutiny. They will be required to undertake data audits, impact assessments, and risk reviews to ensure retention practices remain lawful and proportionate. As a result, data retention governance will become a senior management and board level responsibility.

SDFs will also be required to conduct Data Protection Impact Assessments (DPIAs) for high volume or sensitive data processing activities, especially in areas such as digital lending, alternate credit scoring, and AI based underwriting. These assessments help organisations evaluate whether retaining data for long periods could create unnecessary privacy risks, and whether techniques like anonymisation or data minimisation can be used to reduce exposure without affecting mandatory financial record-keeping obligations.

Another key implication is the need to remain prepared for regulatory inspections. Since SDFs are likely to face closer scrutiny from the Data Protection Board as well as financial sector regulators, documents such as retention registers, deletion logs, and legal hold records must be properly maintained and readily accessible. If an NBFC is unable to justify why certain personal data continues to be stored, it may face regulatory directions, monetary penalties, or restrictions on data processing activities.

Finally, oversight of vendor ecosystems will become more critical for SDFs. Where data retention or storage functions are outsourced to cloud service providers, fintech partners, or document management agencies, the primary responsibility for deletion compliance will remain with the NBFC. Therefore, vendor agreements must clearly require aligned retention timelines, monitored deletion processes, and timely breach reporting to ensure that third-party storage practices do not conflict with statutory erasure obligations.

CONCLUSION

The coming together of RBI record keeping requirements and DPDPA deletion rights. This marks a significant change in how financial data is managed and regulated in India. NBFCs can no longer treat long term data storage as a default practice. Instead, they must ensure that data is retained only where there is a clear legal regulatory requirement and deleted once the purpose is DPDPA deletion rights marks a significant change in how financial data is managed and regulated in India. NBFCs can no longer treat long term data storage as a default practice. Instead, they must ensure that data is retained only where there is a clear DPDPA deletion rights marks a significant change in how financial data is managed and regulated in India. NBFCs can no longer treat long term data storage as a default practice. Instead, they must ensure that data is retained only where there is a clear fulfillment.

As discussed, this shift goes beyond policy changes. It brings additional responsibilities for Significant Data Fiduciaries, including impact assessments, stronger regulatory preparedness, and closer oversight of outsourced vendors. Retention decisions will now need to be justified, documented, and capable of withstanding regulatory scrutiny.

Technology and IT governance will play an equally important role in this transition. Automated retention schedules, system driven deletion, secure archival processes, and audit ready data environments will become essential to balance RBI supervisory expectations with privacy obligations under DPDPA.

In the long run, NBFCs that proactively build structured, privacy aligned record keeping frameworks supported by strong governance and technology controls will be better equipped to manage this dual compliance landscape. More importantly, responsible data management will help institutions build lasting borrower trust at a time when data protection is becoming a key pillar of financial sector credibility.

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