

Islamic MFs

Enter Shariah-Compliant Products



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– Shariq Nisar

Economist and Expert in Islamic Finance, IDAFA Invst Pvt. Ltd., Mumbai

There is no doubt that Indian Mutual Funds are showing increasing interest in Shariah-compliant products. In fact, one of them has already applied for a Shariah-compliant mutual fund. Sebi is reported to have sent the application to the Ministry of Finance for their comments. If this happens, it will be the 'first-of-its-kind' product in India for domestic residents. Earlier, all such products were either available to the non-residents only or structured and marketed without any claim of Shariah-compliance. I believe, launching of Shariah-compliant mutual funds will help the Indian market a great deal.

It will bring another source of liquidity to the market, which hitherto has not been available due to Muslims' reluctance to invest in the stock market. This will also help increase the awareness of Shariah-compliant investment opportunities in India.

I have proved in my research that India is one of the most Shariah-compliant countries in the world. In fact, the findings put India at the top both in terms of the number of available stocks as well as in terms of market capitalization. Only Malaysia comes somewhere near to India and to some extent Pakistan; rest of the countries are far behind. This in-

cludes all Muslim countries. The inherent strength of this lies in India's strong economic performance, which is expected to continue for at least 10-15 more years.

The regulator appears to have some concern about this and probably for this reason they have not allowed any such product till now. There is a perceptible change in the situation now. The government and the regulator do not seem to look at this issue from a political angle, but as another business opportunity. I feel this is a reasonable stand. If countries such as the US, the UK, Germany, Singapore and Thailand can allow Shariah-compliant products there is no reason why India cannot. Moreover, India has one of the largest Muslim populations in the world. The move will give a boost to the saving options of Indian Muslims. Any further delay, on the other hand, will encourage backdoor entry, through which a few of the players have already entered the market. A transparent and better regulated market is good for everyone.

India is one of the most Shariah-compliant countries in the world. Out of all listed stocks at NSE (over 1,300) over 400 are compliant with Shariah norms. This is more than the total stocks available in all Islamic countries put together. Another feature of this is that these stocks come from across the sectors, which is not the case in most of the Muslim countries. Table 1 gives a list of Shariah-compliant stocks at NSE and BSE 500, and Table 2 gives a sector-wise list of compliant stocks at NSE.

Shariah screening and fundamental analyses go hand in hand. Shariah encourages investments in core sectors and the process of screening ensures that chosen stocks will be less volatile due to smaller borrowing and receiv-

Table 1: Shariah-Compliant Stocks in India (2008)

Parameter	NSE	BSE-500
Number of companies	1,331	500
Number of companies Shariah-Compliant	405	257
% Shariah-Compliant Market Cap of Total	61.40	60.44

Source: Shariq Nisar, *Islamic Finance News*, Malaysia, January 2008

Table 2: Top Shariah-Compliant Sectors at NSE

Top Sectors	Number of Companies	Market Cap (Rs. Cr)*
Computer Software	59	450,096.67
Telephone Services	4	316,974.73
Infrastructure and Real Estate	27	242,311.37
Drugs and Pharmaceuticals	35	140,476.12
Finished Steel	4	118,067.02
Cement	15	99,509.91
Cosmetics, Toiletries and Soaps	6	59,820.29
Total	405	2,818,934.59

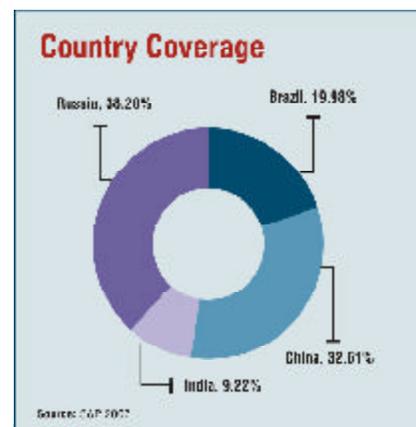
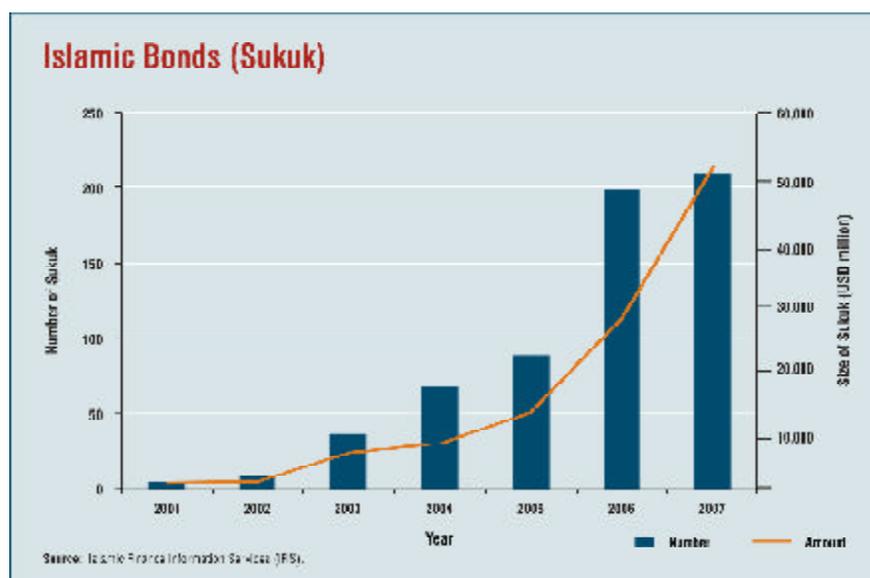
Source: Shariq Nisar, *Islamic Finance News*, Malaysia, January 2008

ables in comparison to non-compliant stocks. We have found that Shariah-compliant stocks give better returns than the non-compliant stocks. Further, prohibitions such as a ban on short-selling and margin trading also help the market. Shariah-compliant investors are serious investors.

As of now, Islamic finance has spread to 74 countries in the world. Middle East, Europe and South East Asia are the major hubs of Shariah-compliant

businesses followed by the US, Singapore and other countries. Assets under Islamic finance have crossed \$1 tn.

About 200 Islamic banks enjoy over \$700 bn of assets, followed by infrastructure projects with over \$400 bn of asset under their belt. In the last few years, major growth is achieved by Islamic bonds with over \$173 bn assets. The following chart—Islamic Bonds (Sukuk)—gives year-wise performance of Islamic bonds.



	Number of Companies	Country Weight
Brazil	6	19.98%
China	9	32.61%
India	5	9.22%
Russia	10	38.20%

Portfolio Characteristics

Number of Companies	30
Number of Countries	4
Adjusted Market Cap (\$ bn)	566.03
Company Size (Adjusted \$ bn)	
Average	18.87
Largest	126.14
Smallest	2.22
Median	11.21
% Weight Largest Company	10.10%
Top 10 Holdings (% Market Cap Share)	67.65%

Source: S&P 2007

In non-Islamic countries, funds still top the list of Shariah-compliant assets closely followed by Sukuk. Shariah-compliant market cap is estimated to be worth \$3.3 tn.

India is passing through one of its best phases in history. Changing demographics, growing economy, expanding business are all to India's great advantage. Seldom has a country enjoyed all these benefits at one time. We must capitalize on it. ■