



## **Scope of Islamic Investments in India**

*Taher Badshah, Investment Advisor  
Kotak Mahindra Offshore Funds*

While the roots of Islamic finance lie in ancient Islamic principles, the development of Islamic finance as an industry is relatively new. Developing at a remarkable pace of about 10-15% a year, this industry now represents a vast global practice which has developed a worldwide presence.

This can be attributed to the fact that many predominantly Islamic nations have seen an increase in financial wealth mainly due to a surge in exports and increasing oil prices. This increasing income is fuelling an increase in demand for new Islamic financial instruments along ethically-aware Shariah principles as an alternative to conventional commercial banking and investment products.

The share of the US in the world's GDP is expected to fall (from 21% to 18%) and that of India to rise (from 6% to 11%) by 2025. The rising GDPs of emerging nations like India have opened up newer investment avenues for rich Islamic investors from the Gulf. In addition, there is tremendous scope for developing and marketing new Islamic financial instruments and Shariah-compliant funds in India.

### **Indian Economy**

Today, India is one of the fastest-growing economies and an exciting investment destination. The world's economic centre of gravity is gradually shifting from the established wealthy economies to the emerging economies including India.

The Indian economy experienced a GDP growth of 9% during 2005-2006, rising to 9.4% during 2006-2007. By 2025 India's economy is projected to be about 60% the size of the US economy. The transformation into a tripolar economy will be completed by 2035, with the Indian economy only a little smaller than the US economy but larger than that of Western Europe. By 2035, India is likely to be a larger growth driver than the six largest countries in the EU, though its impact will be slightly more than half that of the US. India, which is now the fourth largest economy in terms of purchasing power parity, will become the third major economic power within ten years.

A survey conducted by UNCTAD showed that 42% of experts on foreign direct investment (FDI) have put India as the third most attractive location after China and the US. In the same survey MNCs have put India as the second most attractive location for FDI after China. In fact, India is projected to be one of the three largest economies of the world by 2050.

### **Indian Markets**

The Indian capital market is well regulated. The stock markets in India are among the most developed and organised in the world. Two of India's 23 exchanges, the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE), are on par with the best in the world.

India is now considered as one of the most appealing investment destinations for foreign investors. Also, due to a large number of companies listed on the Indian stock exchanges and meeting Shariah investment norms, India is looking like an interesting option for Islamic investors seeking an India exposure.

### **Study on Shariah-compliant Stocks**

To gauge the scope of Islamic investment opportunities in the Indian stock markets, it is imperative to examine stocks which conform to the norms stipulated by the Shariah principles. A detailed study was conducted by Dr Shariq Nisar, an eminent personality in Islamic finance in India.

Below are a few findings from his study on Islamic investments in India:

**Table 1: Shariah-compliant Stocks in India**

Parameters	NSE	BSE-500
Number of companies listed	1,331	500
Number of Shariah-compliant companies	405	257
Percentage of Shariah-compliant market cap of total	61.4	60.44

(31<sup>st</sup> December 2007)

## NSE

Of the 1,331 companies listed on the NSE, 405 companies are qualified on Shariah parameters. The market capitalisation of the qualifying stocks was 61% of the total market capitalisation of the NSE. Moreover, even though the number of Shariah-compliant stocks was limited, the share of market capitalisation of these Shariah-compliant stocks never went below 50% of the total market capitalisation.

The current share of Shariah-compliant market capitalisation in India is higher than that of most of the Muslim countries such as Malaysia, Pakistan and Bahrain, where the share of Shariah-compliant market capitalisation was at 57%, 51% and 6% respectively of the total market capitalisation. Sectors such as computer software, drugs and pharmaceuticals, and automobile ancillaries constituted about 36% of the total Shariah-compliant stocks on the NSE.

## BSE

Research of Shariah-compliant stocks on the BSE 500 Index shows that the number of companies complying with Shariah principles has steadily grown from 95 companies in March 2002 to 164 in 2004, 237 at the end of March 2005 and 257 in 2007.

Below are the top Shariah-compliant sectors at the BSE along with their market cap:

**Table 2: Top Shariah-compliant Sectors at the BSE**

Sr. No.	Top sectors	Number of companies	Market cap (INR crore)
1	Computer software	36	442,310.95
2	Telephone services	4	316,974.73
3	Infrastructure and real estate	26	227,965.31
4	Drugs & pharmaceuticals	27	135,499.31
5	Finished steel	5	119,842.37
6	Trading	10	112,404.58
7	Cement	11	97,039.16

(31<sup>st</sup> December 2007)

## Conclusion

The opening up of the Indian economy and improving global competitiveness has placed India on the economic radar of global players. FDI inflows have gone up from US\$2.2 billion in 2003-2004 to US\$15.7 billion in 2006-2007.



Slowly the world's economic centre of gravity is shifting away from the established, wealthy economies to the emerging economies including India. As the world's largest democracy, it is one of the fastest-growing large economies in the world, with enormous investment opportunities.

Over the last ten years, the Islamic finance industry has grown considerably. The scope for Islamic investments in India has widened mainly due to two reasons: internal demand and the external supply. The internal demand is due to the huge Muslim population in the country, standing at 150-160 million (India is the second largest Muslim populated country in the world). There is acute awareness of Islamic financial products, plus India's Muslim community has a high savings track record of more than INR40 billion (US\$932.18 million) a year.

The external supply such as the investment opportunities in other Muslim countries is limited and hence investors seeking to invest in Shariah-compliant funds are looking for opportunities in emerging economies like India.

With hundreds of Indian companies complying with economic laws of Shariah, India is now becoming an attractive destination for Islamic investments. Islamic financial institutions and Shariah-conscious domestic investors are finding the Indian stock markets an alternative to investing in other economies.

*Taher Badshah is an investment advisor with Kotak Mahindra Offshore Funds. The writer thanks Dr Shariq Nisar for sharing his research and study.*

*This article first appeared in Islamic Finance news (Volume 5, Issue 26).*