



## **Methodology document of CNX Shariah Indices**

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## Table of Contents

<b>Sr. No.</b>	<b>Content</b>	<b>Page No</b>
1	Introduction	3
2	Screening Partner	4
3	Shariah Screening Process	5
4	Index Eligibility & Methodology	6
5	Index Maintenance	7
6	Index Dissemination	8

# Introduction

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## **What is a Shariah Index?**

Shariah Index can be used to construct Socially Responsible Investment (SRI) products that are attractive to investors who do not wish to invest in stocks of companies that engage in activities that they deem to be against their beliefs. Shariah compliant products are particularly attractive to Islamic investors, as these instruments allow followers of the Islamic faith to invest without violating their religious principles.

## **Index family:**

### **CNX Nifty Shariah.**

Based on the premier market bellwether for India, the CNX Nifty, the current constituents of the index are screened for Shariah compliance. Those that are compliant form the CNX Nifty Shariah. The resulting index performance closely tracks the performance of the parent index. The Nifty includes the largest and most liquid companies listed on the National Stock Exchange.

### **CNX 500 Shariah.**

The complete benchmark for the Indian stock market, the CNX 500 covers more than 90% of the total market capitalization and more than 80% of total traded volume on the National Stock Exchange. The current constituents of the index are screened for Shariah compliance. The resulting compliant stocks form the CNX 500 Shariah, which closely tracks the performance of the parent index

## **Representation**

All underlying stocks are representative of the Indian equity market, while remaining highly liquid and investable. Each Shariah compliant index typically covers over 60% of the market capitalization of the parent index, though this can vary depending on the number of companies found to be compliant. Historical performance analysis, however, indicates that there is a high level of correlation between the underlying indices and the Shariah compliant indices.

## **Highlights**

- Leading equity indices screened for Shariah compliance
- All indices are liquid and investable
- Shariah compliance is as per the strictest standards observed by Middle Eastern countries
- Indices are maintained for compliance on a periodic basis

# Screening Partner

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IISL has contracted with Taqwaa Advisory and Shariah Investment Solutions (TASIS) to provide the Shariah screens and filter the stocks based on these screens.

Taqwaa Advisory and Shariah Investment Solutions (TASIS) is India's premier Shariah Advisory institution in the field of business and finance. For the last many years TASIS is at the forefront in providing Shariah consultancy, monitoring and certification to many of India's reputed organizations, including those owned by the central and state government too.

## **TASIS - Shariah Supervisory Board:**

### **Mufti Abdul Kadir Barkatulla**

A graduate of Darul Uloom Deoband, Mufti Barkatulla has an equally strong background in Economics and Finance. He is a member of the Shariah supervisory boards of several UK based financial institutions such as Islamic Bank of Britain, United National Bank, Lloyds TSB, Alburaq of ABC Bank International (UK) and others. Mufti Barkatulla has been commended by the British Parliament for his immense contributions to the Islamic Finance sector of UK.

### **Mufti Khalid Saifullah Rahmani**

Mufti Khalid is General Secretary of Islamic Fiqh Academy India. He is founder Director of The Institute of Higher Learning in Islam, Hyderabad. He has written about 100 books on a wide range of topics and pioneered more than fifteen institutions of Islamic education, research and jurisprudence across the country. He sits on the Shariah boards of multiple Islamic Finance institutions. His wide reach and broad outlook has made him respectable across wide sections and sects of the Muslim community in India.

### **Dr. Hafiz Mohammed Iqbal Masood Al-Nadvi**

Dr. Nadvi is a doctorate in Islamic jurisprudence (Fiqh) from Ummul Qura University, Makkah. He has been Assistant Professor at King Saud University Riyadh for six years. He has taught Shariah for over two decades in various institutes and is currently Director of Al-Falah Islamic Centre, Oakville, Ontario and Chairman, Shariah Board, Canada

# Shariah Screening Process

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## **Business Screening:**

Activities which are not permitted under Shariah are those which involve engaging in interest-earning businesses or in those businesses which are mostly harmful to human society and disallowed by Shariah. Thus companies engaged in promoting promiscuity, violence, vulgarity and businesses affecting the environment are also considered Shariah non-compliant. Hence all companies which are primarily into the following activities are screened out on the business parameter.

- Conventional financial services such as banks, insurance companies, finance and investment companies, stock broking etc.
- Production, sale and marketing of non-Halal food and beverages such as Pork, Alcohol, Tobacco and such other items etc.
- Companies involved in production or distribution of vulgar entertainment, such as film and other recreational activities where vulgarity, promiscuity is a part and parcel of the business undertaken / promoted
- Hotels and restaurants (providing non-Halal products or entertainment)
- Gambling, Narcotic drugs, etc.

## **Financial Screening:**

Since interest-based transactions are prohibited by Shariah, companies passing the business screening stage are further screened to ensure that their dealings involving interest-based debt or earnings out of / deployment of funds on interest are within the maximum tolerance limits set by Shariah scholars. There are certain variations in these tolerance limits based on place and time. To remain on the conservative side from a Shariah adherence perspective, TESIS has adopted financial screening norms which are more conservative than those followed by its peers and also justified by empirical studies of the Indian environment. TESIS norms are given below:

- Interest based-debt should be less than or equal to 25% of Total Assets.
- Interest income plus returns (currently considered @8%) from interest-based investments should be less than or equal to 3% of the total income.
- Receivables plus cash and bank balances should be less than or equal to 90% of Total Assets.

Income Purification Ratio (IPR):

For full compliance with Shariah law, investors are required to purge the pro rata portion of interest income accrued on their holding of shares in a company.

# Index Eligibility & Methodology

## Index Eligibility

The underlying index constituents are screened for Shariah compliance. Only stocks that are compliant remain in the Shariah compliant indices.

Shariah Index	Parent Index / underlying
CNX Nifty Shariah Index	CNX Nifty Index
CNX 500 Shariah Index	CNX 500 Index

## Eligibility Factors

Each of the underlying indices has its own eligibility criteria. *For eligibility criteria for the underlying indices, please refer to their respective links:*

**CNX Nifty Index:** [http://www.nseindia.com/products/content/equities/indices/cnx\\_nifty.htm](http://www.nseindia.com/products/content/equities/indices/cnx_nifty.htm)

**CNX 500 Index:** [http://www.nseindia.com/products/content/equities/indices/cnx\\_500.htm](http://www.nseindia.com/products/content/equities/indices/cnx_500.htm)

## Index Methodology:

The CNX Shariah Indices are calculated using a base-weighted aggregate methodology. This means the level of an index reflects the total float-adjusted market value of all of the component stocks relative to a particular base period. The total market value of a company is determined by multiplying the price of its stock by the number of shares available after float adjustment. An indexed number is used to represent the result of this calculation in order to make the value easier to work with and track over time.

On any given day, the index value is the quotient of the total available market capitalization of its constituents and its divisor. Continuity in index values is maintained by adjusting the divisor for all changes in the constituents' share capital after the base date. This includes additions and deletions to the index, rights issues, share buybacks and issuances, and spin-offs. The divisor's time series is, in effect, a chronological summary of all changes affecting the base capital of the index. The divisor is adjusted such that the index value at an instant just prior to a change in base capital equals the value at an instant immediately following that change.

## Timing of Changes

Additions are made to the Shariah indices once a month, typically the third Friday of the month, after the addition to the underlying index, if the stock is found compliant by the Shariah board. Index deletions may also occur at that time, if a constituent is deemed no longer compliant by the Shariah board. Other deletions may occur during the month if a stock is being deleted from the underlying index. Such deletions will occur at the same time as the deletion from the parent index.

# Index Maintenance

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Constituents of the CNX Shariah Indices are also constituents of the underlying CNX Indices. As such, specific changes to index constituents such as share changes, IWF changes, dividend distributions, price adjustments, etc. will follow the policy of the respective parent index.

Changes in the index level reflect changes in the total market capitalization of the index that are caused by stock price movements in the market. They do not reflect changes in the market capitalization of the index, or of the individual stocks, that are caused by corporate actions such as dividend payments, stock splits, distributions to shareholders. When a corporate action affects the price of a security – such as when the price drops on a special distribution ex-date – the price of the security is adjusted on the ex-date and the index divisor is adjusted to offset any change in the total market value of the index.

When a stock is replaced by another stock, the index divisor is adjusted so the change in index market value that results from the addition or deletion does not change the index level.

## **Corporate Actions**

Maintaining the CNX Shariah indices includes monitoring and completing the adjustments for company additions and deletions, share changes, stock splits, stock dividends. Some corporate actions, such as stock splits and stock dividends, require simple changes in the common shares outstanding and the stock prices of the companies in the index. Other corporate actions, such as share issuances, change the market value of an index and require an index divisor adjustment to prevent the value of the index from changing.

Adjusting the index divisor for a change in market value leaves the value of the index unaffected by the corporate action. This helps keep the value of the index accurate as a barometer of stock market performance, and ensures that the movement of the index does not reflect the corporate actions of the companies in it. Divisor adjustments are made after the close of trading and after the calculation of the closing value of the index.

Any change in the index divisor also affects the corresponding sub-indices and divisors. Each sub-index is maintained in the same manner as the headline index.

Corporate actions such as splits, stock dividends, rights offerings, and share changes are applied on the ex-date.

## **Currency of Calculation**

The indices are calculated in Indian rupees.

## **Base Date**

The indices have a base date of January 1, 2007 with base value of 1000.

# Index Dissemination

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## **Tickers**

Daily index values can be viewed on NSE's website. ([www.nseindia.com](http://www.nseindia.com))

Corporate actions, index weights and portfolios can be received via IISL's https FTP site on subscription.