Opportunity of Islamic investment in India

Allah says: Allah made trade lawful and prohibited interest (2:275). At on other place Allah says O who believer in me fear god and quit what remains of riba if you are indeed believers; but if you do not, take notice of war from Allah and his messenger.(2:278-9)

There is two ways of getting profit (1) which Islam permits (2) which Islam prohibits.

Islam has forbidden earning from interests. And has counted as big sin and among the big sins there is no which forbidden in this manner; that notice a war from Allah and his messenger. Can human being defeat Allah and his messenger?

In India Muslims are second largest population after Indonesia, Indian Muslims population estimated to be around 150, millions. Inspite of this India is routinely ignored in the vast majority of the books articles on the subject of Islamic banking and or investments. Dow Jones has Islamic index, FTSE of Britain has not only Islamic Index but also a full fledge Islamic bank, but unfortunately there is not a single Islamic Product or an Islamic benchmark in Indian investment environment. Even more bizarre India is not covered and not included for any of their research work by any Islamic institution or bank .although India is the big market for Islamic investments,and according to me no research work of any research institution could be complete without including India. Although India has a good Islamic structure which provides opportunity of riba free investment and finance which gives us lots of benefit.

Since the 1991 liberalization reforms, India's GDP has consistently grown at over 5% and has now crossed the 8% mark. In fact, India is expected to be one of the world's two largest economies by 2050. The huge capital inflows into the country mirror the confidence of foreign investors in the Indian economy's ability to match this expectation.

India's institutional framework is well suited for the world economy. Corporate India has been performing well and this factor, coupled with strong macroeconomic fundamentals, growing industrial and service sectors, provides great potential for investment in the Indian economy.

(1) Stock market:

Common people in our community believe that investment in stocks is prohibited. No it is not true. Indeed there are some kind of stocks, which might be prohibited but not all. So prominent Islamic scholars, and ulemas have defined all market instruments and after that they have permitted with some conditions to have investments in stock market and invest in it.

(a)The company’s activities should not include liquor, pork, hotel, casino, gambling, cinema, music, interest bearing financial institutions, conventional insurance companies, etc.

(b) The total interest bearing debt of the company at any point in time should remain below one third of its average market capitalization during the last twelve months.
(c) Its aggregate of account receivables should remain below 45% of total assets.
(d) If company has any interest bearing income it should not be more than 10% in any condition.

While Shariah compliant investment avenues are now becoming available in most countries, India has not seen large-scale development.To gauge the scope of Islamic investment opportunities in the Indian stock market, it is imperative to examine stocks that conform to Islamic Shariah principles "Out of 6,000 BSE listed companies, approximately4,200 are Shariah compliant. The market capitalization of these stocks accounts for approximately 61% of the total market capitalization of companies listed on BSE.This figure is higher even when compared with a number of predominantly Islamic countries such as Malaysia, Pakistan and Bahrain. In fact, the growth in the market capitalization of these stocks was more impressive than that of the non-Shariah compliant stocks.
The software, drugs and pharmaceuticals and automobile ancillaries sector were the largest sectors among the Shariah compliant stocks. They constitute about 36% of the total Shariah compliant stocks on NSE. Further on examining the BSE 500 the market capitalization of the 321 Shariah compliant companies hovered between 48% and 50% of the total BSE 500 market capitalization.(Source: www.islamicequity.co.in)

(2) Mutual funds:

Another opportunity is mutual fund which is based on 100% equity. These funds are invested in different sectors like IT, automobile telecommunication, cement and a few present in interest based financial institutes, almost 10 to 15 %. So investor has to purify that amount from the profits. And also there are many sectorial funds which invests only in a particular sector like automobile,Oil & Gas, etc

Here are some of the most common types of the sharia compliant funds and their basic investment profile, which an investor must know before leaving his/her hard-earned money at their disposal:

Equity Funds : As the name suggests, equity funds invest the money pooled in from the investors into stocks. Equity MFs are further classified into sub-categories depending upon the asset classes such as large-cap, mid-cap and small-cap, sectors or themes. Equity funds carry a bigger risk profile than the bond funds.

Sector Funds : Sector funds invest in the stocks of one particular sector and these funds are generally conceptualized after some sector catches fancy of the market or when there is any significant buzz for some major growth in a particular sector. For example, the infrastructure sector is the current favourite in the MF circle, while a few other sectors with exposure to the country's infrastructure growth are also finding favour.

However, sector funds do not offer the much-desired diversification to the MF investors and often these funds enter the market after most of the growth has already materialized in that particular sector. However, there are certain defensive sectors like FMCG and pharmaceuticals, which consistently witness some modest growth with limited volatility.

Index Funds: The index funds primarily invest in the constituent stocks of a particular market index, such as Sensex and Nifty, and most often track the movements of those indices. While during a bull run, index funds can give impressive returns, the losses are also sharp during the bearish phases of the market. However, the index funds are known to given good returns in the long term, as their portfolio generally consist of stocks with proven track record.Here however you have to consider purification as quite a few banking stocks are there in the current index.

Growth Funds: These funds invest in growth stocks, or the stocks of those companies that are likely to see a sharp rise in their sales and profits. These funds seek to cash in upon the rise in the share prices of these companies, driven by their bulging sales and profit books.

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