



## **Methodology Document of**

**NIFTY50 Shariah Index  
NIFTY500 Shariah Index  
NIFTY Shariah 25 Index**

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## **Introduction:**

### **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:**

#### **NIFTY50 Shariah:**

Based on NIFTY 50, the current constituents of the index are screened for Shariah compliance. Those that are compliant form the NIFTY50 Shariah. The resulting index performance closely tracks the performance of the parent index. The NIFTY includes the largest and most liquid companies traded (listed & traded and not listed but permitted to trade) at the National Stock Exchange (NSE).

#### **NIFTY500 Shariah:**

The NIFTY 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 NIFTY500 Shariah, which closely tracks the performance of the parent index Representation.

### **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.

#### **NIFTY Shariah25**

25 Shariah compliant stocks forms part the index. The index independent and have fixed number of constituents, unlike other 2 Shariah indices (NIFTY50 Shariah & NIFTY500 Shariah), which are subsets of parent indices (NIFTY 50 & NIFTY 500 respectively) and does not have fixed number of constituents. All index constituents shall be IRDA dividend norms compliant.

## 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:

NSE Indices Limited 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 played a key role in promoting India's first shariah index and has now joined National Stock Exchange in providing shariah consultancy and screening services.

### TASIS - Shariah Supervisory Board:

#### **Mufti Abdul Kadir Barkatulla**

Mufti Barkatulla is a prominent Islamic Sharia law expert with a background in economics and finance as well as social and Muslim Community work. He was trained extensively in Islamic and modern education systems in India and the UK. Mufti has contributed to the British Muslim community as an Imam, Shariah Judge, developer of Islamic Law information databases and Shariah Advisor of Islamic Banks and Funds in Europe and Asia. He is also Chairman of Board of Ulama of Halal Food Authority of UK. He has been commended by members of the British Parliament for his contributions to the Islamic Finance sector of UK.

#### **Mufti Khalid Saifullah Rahmani**

Mufti Khalid Saifullah Rahmani is General Secretary of Islamic Fiqh Academy, India and a founding member of All India Muslim Personal Law Board. He is founder Director of The Institute of Higher Learning in Islam, Hyderabad. He has written more than 100 books on a wide range of topics and pioneered more than fifteen institutions of Islamic education, research and jurisprudence across the country. His wide reach and broad outlook have made him respectable across wide sections and sects of the Muslim community in India.

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

Dr. Nadvi has a doctorate in Islamic jurisprudence (Fiqh) from Ummul Qura University, Makkah, Saudi Arabia. He has been Asst. Professor at King Saud University Riyadh for six years. He has taught Shariah for two decades in various institutes. He is Resident Imam of Al Nadwa Institute, Toronto, Chairman of Canadian Council of Imam and Chairman of Shariah Board, Canada. For his expertise, Dr Nadvi has been invited by Harvard Law School, London School of Economics and many other prestigious institutions.

## **Shariah Screening Process:**

### **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, TASIS 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. TASIS norms are given below:

- Interest based-debt should be less than or equal to 25% of Total Assets.

- Interest income plus returns (currently considered @7.5%) 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:**

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

<b>Shariah Index</b>	<b>Parent Index / underlying Index</b>
NIFTY50 Shariah Index	NIFTY 50 Index
NIFTY500 Shariah Index	NIFTY 500 Index

Each of the above two parent indices has its own eligibility criteria. For eligibility criteria for the underlying indices, please refer to the methodology document of NIFTY 50 and NIFTY Broad market indices.

### **NIFTY Shariah 25 - Index Eligibility Criteria:**

- The company's trading frequency should be at least 90% in the last six months
- The company should be Shariah compliant for last 24 months continuously
- Companies which are IRDA dividend norms compliant shall be considered eligible to be included in the index
- 25 stocks based on six month average free float market capitalization are selected as index base composition
- Shariah compliance screening is done on monthly basis & periodic index review is carried out on semi-annual basis
- During monthly review, if any index constituent becomes non-Shariah compliant then, Shariah compliant non-index constituent from replacement pool will be included in the index
- During semi-annual review, replacement is made if any non-index Shariah compliant security with 1.5 times free float market capitalization is available in replacement pool than the last index constituent by free float market capitalization.
- If any index constituent is replaced due to corporate action such as spin-off, merger / de-merger etc. then, such company becomes eligible for index if it fulfils Shariah compliance norms for 12 months.

## **Differential Voting Rights:**

Equity securities with Differential Voting Rights (DVR) are eligible for inclusion in the index subject to fulfilment of criteria given below:

- Market capitalisation criteria is measured at a company level by aggregating the market capitalisation of individual class of security meeting the liquidity criteria for the respective index
- Free float of DVR equity class share should be at least 10% of free-float market capitalization of the company (voting equity class share and DVR equity class share) and 100% free-float market capitalization of last security in respective index
- It should meet liquidity criteria applicable for the respective index
- Upon inclusion of DVRs in index, the index may not have fixed number of securities. For example, if DVR of an existing NIFTY 50 constituent is included in NIFTY 50, the NIFTY index will have 51 securities but continue to have 50 companies
- It is possible that the DVR is eligible for inclusion in the index whereas the full voting rights security class is ineligible. In such scenario, the DVRs shall be included in the index irrespective of whether full voting rights share class is part of index

## **Index Methodology:**

The NIFTY Shariah Indices are calculated using a free-float market capitalization 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 etc. 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.

## **Capping:**

Weights of each stock in NIFTY50 Shariah and NIFTY500 Shariah indices are calculated based on its free-float market capitalization such that no single stock shall be more than 33% and weights of top 3 stocks cumulatively shall not be more than 62% at the time of rebalancing.

Each constituent in the NIFTY Shariah 25 index is capped at 10%. This means that at the time of rebalancing of the index, no single constituent shall have weightage of more than 10%. The capping factor of stocks is realigned upon change in equity, investible weighted factor (IWF), replacement of scrips in the index, periodic rebalancing and on a quarterly basis after the expiry of the F&O contracts in March, June, September and December.

In the event of weight realignment, capping factors will be calculated for all constituents whose uncapped weight is greater than maximum capping limit. Weightage of such constituent may increase beyond maximum capping limit between the rebalancing periods depending on the price movement. The capping factor is calculated considering the closing prices of the index constituents 5 working days prior to the effective date of the changes.

## **Index Maintenance:**

### **Index Reconstitution:**

Index maintenance plays a crucial role in ensuring the stability of the index. Simultaneously with the semi-annual or additional review of NIFTY 50 and NIFTY 500 indices as these Shariah indices are sub-sets of NIFTY 50 and NIFTY 500 considering 6 months data ending January and July respectively. The replacement of stocks in broad market indices (if any) are generally implemented from the first working day after F&O expiry of March and September. In case of any replacement in the index, a four weeks' prior notice is given to the market participants.

Additional index reconstitution may be undertaken in case any of the index constituent undergoes a scheme of arrangement for corporate events such as merger, spin-off, compulsory delisting or suspension etc. The equity shareholders' approval to a scheme of arrangement is considered as a trigger to initiate the exclusion of such stock from the index through additional index reconstitution.

Additionally, review of Shariah indices is carried out on a monthly basis and changes are typically made on the third Friday of the month, if any index constituent is found non-compliant by the Shariah board.

Further, on a quarterly basis indices will be screened for compliance with the portfolio concentration norms for ETFs/ Index Funds announced by SEBI on January 10, 2019. In case of non-compliance, suitable corrective measures will be taken to ensure compliance with the norms.

Changes in the index level reflect changes in the market capitalization of the index which 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, mergers, or acquisitions etc.

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

### **Calculation and dissemination frequency**

The index is calculated and disseminated on end of day basis on all days that the National Stock Exchange of India is open for trading in equity shares through its trading terminals and website.

### **Corporate Actions and Share Updates**

Maintaining the index include monitoring and completing the adjustments for company additions and deletions, share changes, stock splits, stock dividends etc. 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 a divisor adjustment to prevent the value of the index from changing.

Adjusting the 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.

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

All singular instances of share changes arising out of additional issue of capital, such as ESOPs, QIPs, ADR/GDR issues, private placements, warrant conversions, and FCCB conversions, which have an impact of 5% or more on the issued share capital of the security are implemented after providing a five working days' prior notice. Share repurchase (buyback) also have the same rules as applicable to share changes.

Changes entailing less than 5% impact on the issued share capital or a free-float are accumulated and implemented from the first working day after F&O expiry of March, June, September and December after providing five working days' prior notice.

### **Currency of Calculation**

For calculation of the index, all prices in Indian rupees are considered.

### **Base Date**

NIFTY50 Shariah and NIFTY 500 Shariah indices have a base date of December 29, 2006 with base value of 1000.

NIFTY Shariah 25 has a base date of January 1, 2009 with base value of 1000.

### **Investible Weight Factors (IWFs):**

IWF as the term suggests is a unit of floating stock expressed in terms of a number available for trading and which is not held by the entities having strategic interest in a company. Higher IWF suggest greater number of shares held by the investors as reported under public category within a shareholding pattern reported by each company.

The IWFs for each company in the index are determined based on the public shareholding of the companies as disclosed in the shareholding pattern submitted to the stock exchanges on quarterly basis from March, June, September and December effective after the expiry of the F&O contracts. The following categories are excluded from the free float factor computation:

- Shareholding of promoter and promoter group
- Government holding in the capacity of strategic investor
- Shares held by promoters through ADR/GDRs.
- Strategic stakes by corporate bodies
- Investments under FDI category
- Equity held by associate/group companies (cross-holdings)
- Employee Welfare Trusts
- Shares under lock-in category

Example: For XYZ Ltd.

	Shares	%
Total Shares	1,00,00,000	100.00

	Shares	%
Shareholding of promoter and promoter group	19,75,000	19.75
Government holding in the capacity of strategic investor	50,000	0.50
Shares held by promoters through ADR/GDRs.	2,50,000	2.50
Equity held by associate/group companies (cross-holdings)	12,575	0.13
Employee Welfare Trusts	1,45,987	1.46
Shares under lock-in category	14,78,500	14.79

$$\text{IWF} = [1,00,00,000 - (19,75,000 + 50,000 + 2,50,000 + 12,575 + 1,45,987 + 14,78,500)] / 1,00,00,000. = \mathbf{0.61}$$

## Index Governance:

### Index Committee

A professional team at NSE Indices Limited manages the index. There is a three-tier governance structure comprising the Board of Directors of NSE Indices Limited, the Index Advisory Committee (Equity) and the Index Maintenance Sub-Committee. NSE Indices Limited has constituted the Index Advisory Committee (Equity), which provides guidance on macro issues pertaining to equity indices. The Index Maintenance Sub-committee makes all decisions on additions and deletions of companies in the Index.

### Index Policy

The indices use transparent, researched and publicly documented rules for its maintenance. These rules are applied regularly to manage changes to the indices. Index reviews are carried out periodically to ensure that each security in the index fulfills eligibility criteria.

### Announcements

All index-related announcements are posted on the websites of NSE Indices Limited and NSE. Changes impacting the constituent list are also posted on the Web site. Please refer to the [www.niftyindices.com](http://www.niftyindices.com) and [www.nseindia.com](http://www.nseindia.com).

### **Holiday Schedule**

For the calculation of indices, the NSE Indices Limited follows the official holiday schedule. A complete holiday schedule for the year is available on the NSE Indices Limited and NSE website. Please refer to the [www.niftyindices.com](http://www.niftyindices.com) and [www.nseindia.com](http://www.nseindia.com).

### **Data Source**

Prices of index constituents are sourced from NSE.

### **Index Recalculations**

All NIFTY family of indices are recalculated whenever errors occur. Users of the NIFTY indices are notified through appropriate channel of communication.

### **Market Feedback & Index Methodology Review**

NSE Indices Limited is committed to ensure that all NIFTY indices are relevant for the market participants. In order to ensure this, NSE Indices Limited on an on-going basis interacts with the stakeholders inviting the feedback through various channels of communication. The feedback received from the market participants forms a key input for all index related aspects.

Review of methodology of NIFTY indices is carried out on an annual basis. Additionally, NSE Indices Limited also considers any feedback that it may receive with regards to index methodology as part of on-going market interactions. Any changes to the index methodology is approved by the Committee and the same is announced through a press release.

### **Other**

In case of a market stress or disruption, NSE Indices Limited will review and deal with the situation on consultative basis with the National Stock Exchange of India Ltd. (NSE) as NSE is source for price data for computation of equity indices.

All indices are expected to reflect the performance of a basket of stocks selected based on the defined guidelines and theme. Every index user is advised to evaluate the benefits of index and take an informed decision before using the index for self or creation of index-linked products. NSE Indices Limited does not accept any liability for any losses, claims, expenses etc. that may be incurred by any person as a result of usage of NIFTY family of indices as a result of reliance of the ground rules, any errors or inaccuracies.

## **Index Precision**

The level of precision for index calculation is as follows:

- Shares outstanding are expressed in units
- Investible weight factors (IWFs) are expressed in two decimals
- Float-adjusted market capitalization is stated to two decimal places
- Index values are disseminated up to two decimal places

## **Index Calculation:**

### **Price Index Calculations:**

The index is calculated using free float market capitalization methodology. At the time of rebalancing of shares/ change in index constituents/ change in investable weight factors (IWFs), the weightage of the index constituent (where applicable) is capped at 10%. Weightage of such stock may increase between the rebalancing periods.

Index Market Capitalization = Total shares outstanding \* Price \* IWF

### **PR Index Value =**

Current Index market capitalization/ Base Market Capital \* Base Index Value (1000)

Base market capital of the Index is the aggregate market capitalisation of each scrip in the index during the base period. The market capitalization during the base period is equated to an Index value of 1000 known as the base Index value.

### **Total Return (TR) Index Calculation:**

The index reflects the return one would get if an investment is made in the index portfolio. As the index is computed real-time, it takes into account only the stock price movements. However, the price indices do not consider the return from dividend payments of index constituent stocks. Only the capital gains and losses due to price movement are measured by the price index. In order to get a true picture of returns, the dividends received from the index constituent stocks also need to be included in the index movement. Such an index, which includes the dividends received, is called the total return index. The total return index reflects the returns on the index from stock prices fluctuation plus dividend payments by constituent index stocks.

The total return version of the index is also available, which assumes dividends are reinvested in the index after the close on the ex-date. Corporate actions like dividend announcement do not require any adjustment in the normal price index (other than special dividend). Special dividend refers to a dividend that's more than 5% of close price of a stock declaring dividend and all cases of dividends (irrespective of the

dividend amount), where the entity has sought exemption from the timeline prescribed under the provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. A suitable divisor adjustment is made in case of a special dividend.

A separate Total Returns Index (TR) is calculated which shows the returns on Index portfolio, inclusive of dividends.

Calculation of the TR Index:

$$TR\ Index = Previous\ TR\ index * \left[ 1 + \left( \frac{(Today's\ PR\ Index + Indexed\ Dividend)}{Previous\ PR\ Index} - 1 \right) \right]$$

Where,

Index dividend for the 'T' day = Total Dividends of the scrips in the Index/ Index divisor for the day

Total dividends of scrips in the Index =  $\Sigma$  (Dividend per share \* Modified index shares)

Modified index shares = Total shares outstanding \* IWF \* Capping factor (if applicable)

## **Index Dissemination**

### **Web site**

Daily index values, index constituents, methodology, and press releases are available on [www.niftyindices.com](http://www.niftyindices.com) and [www.nseindia.com](http://www.nseindia.com).

## About Us

### **About National Stock Exchange of India Limited (NSE):**

National Stock Exchange of India Ltd. (NSE) is the leading stock exchange in India and the second largest in the world by nos. of trades in equity shares from January to December 2018, according to World Federation of Exchanges (WFE) report. NSE was the first exchange in India to implement electronic or screen-based trading. It began operations in 1994 and is ranked as the largest stock exchange in India in terms of total and average daily turnover for equity shares every year since 1995, based on SEBI data. NSE has a fully-integrated business model comprising exchange listings, trading services, clearing and settlement services, indices, market data feeds, technology solutions and financial education offerings. NSE also oversees compliance by trading and clearing members with the rules and regulations of the exchange. NSE is a pioneer in technology and ensures the reliability and performance of its systems through a culture of innovation and investment in technology. NSE believes that the scale and breadth of its products and services, sustained leadership positions across multiple asset classes in India and globally enable it to be highly reactive to market demands and changes and deliver innovation in both trading and non-trading businesses to provide high-quality data and services to market participants and clients.

For more information, please visit: [www.nseindia.com](http://www.nseindia.com)

### **About NSE Indices Limited:**

(Formerly known as India Index Services & Products Limited-IISL)

NSE Indices Limited (formerly known as India Index Services & Products Ltd. - IISL), a subsidiary of NSE, provides a variety of indices and index related services for the capital markets. The company focuses on the index as a core product. The company owns and manages a portfolio of indices under the NIFTY brand of NSE, including the flagship index, the NIFTY 50. NIFTY equity indices comprises of broad-based benchmark indices, sectoral indices, strategy indices, thematic indices and customised indices. NSE Indices Limited also maintains fixed income indices based on Government of India securities, corporate bonds, money market instruments and hybrid indices. Many investment products based on NIFTY indices have been developed within India and abroad. These include index based derivatives traded on NSE, NSE IFSC and Singapore Exchange Ltd. (SGX) and a number of index funds and exchange traded funds. The flagship 'NIFTY 50' index is widely tracked and traded as the benchmark for Indian Capital Markets.

For more information, please visit: [www.niftyindices.com](http://www.niftyindices.com)