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Performance of Shariah Compliant Index: A Comparative Study of India and Malaysia

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Abstract

To meet the increasing demand for Shariah Compliant Investment Avenues in equity markets, number of Islamic Indices have been launched worldover. As on today there are hundreds of Shariah Compliant Indices launched in different countries. Dow Jones and FTSE Global were the first to launch the Shariah Compliant Index namely DJIMI and FTSE Global Islamic Index Series (GIIS). Following the trend, MSCI also introduced Islamic Indices which are constructed from the conventional MSCI country Indices and cover seventy developed, emerged and frontier market countries including regions such as the Gulf cooperation Council countries and Arabian markets. While a number of Shariah compliant Indices have been launched by different publishers like S&P, MSCI, FTSE, Dow Jones and Russell to meet the growing demand but a very few studies have been conducted to assess the performance of these indices in comparison to their counterpart indices in terms of their risk and return. The present study has been undertaken to assess and compare the performance of MSCI India Islamic index and MSCI Malaysia islamic index with their respective conventional Indices for eleven years time period i.e, 2003 to 2013. Also the behaviour of Islamic Indices is studied during recent financial crises. To assess the performance of these indices, average monthly raw returns, risk adjusted monthly returns were calculated using time series data of daily closing prices. To assess the risk involved Beta and standard deviation has been used. The study has revealed that in India Islamic Indices has underperformed while as in case of Malaysia, it has outperformed the respective conventional Index during period under study. However in both cases Islamic Index has outperformed its counterpart index during crises period.

Keywords: Shariah Compliant Index, Conventional Index, Beta, Alpha, India, Malaysia.

Introduction

As one of the fastest growing segments in global financial services industry, Islamic finance has become systemically important globally. With Islamic finance in more than 55 countries, the global market for Islamic financial services, as measured by the total volume of Shariah compliant assets, is estimated to have increased from only $80 billion at the beginning of the last decade to $1.1 trillion at end-2011. From 1990s onwards, the expansion of Islamic banking and finance increased and, the Industry has witnessed remarkable growth in the last decade. The average growth rate for the period 2000-2007 was recorded even higher (30%), however due to the global financial crisis starting from 2009, the overall performance of Islamic financial institutions that were mostly involved in asset-based financing activities, was also affected. Despite the slight moderation in the growth pace due to crisis in the global economy arisen out of the malpractices of the conventional financial system, the majority of the many Shariah-compliant institutions and their assets have remained unscathed from the direct impact of the financial crisis. Yet, the phenomenal growth rates have so far translated little into a sound presence in global financial assets: the share of Islamic finance in global financial assets is estimated at around 1%.

Islamic finance is a system of finance based on the rulings of the Shariah. The main sources of guidelines for the establishment of an Islamic way of doing business come from the Quran, Sunnah and the Hadith. Further guidance regarding the principles of islamic finance are provided by Ijma, decisions derived by the religious scholars on issues not faced by the Prophet in his lifetime, and Qiyas, decisions taken by analogy on matters not addressed to in the Quran or the Sunna compared with a matter addressed in the Quran or the Sunna. Still there is one more source of rules and regulations, Ijtihaad, a way of reaching into conclusions on the basis of independent reasoning.

Islamic Finance broadly refers to the application of Islamic principles and laws to finance. One of the major prohibitions as stated several times in Quran is the use of interest (riba). Riba (usury), maysir (gambling/speculation), gharar (excessive uncertainity) are strictly prohibited by the Shariah. Further, investments can be made only in those businesses which are allowed by Shariah. Those classified as unlawful include businesses dealing with alcohol and pork products, gambling casinos, movie theatres, pornography, hotels, conventional financial services, restaurants earning mainly from selling alcohol and airlines earning their profit from duty free sale of alcohol and tobacco. Under Islamic finance the risk of a transaction must be shared between the borrower and the lender, and besides profit motive, the businesses must be operated for social and ethical purpose as well.

While Islamic finance has been around for 40 years, the Islamic Equity market started growing in the mid 90s. Until 1999, there was no official Islamic index to benchmark the returns of Islamic Equity Funds against. Dow Jones and FTSE, were the first who in 1999 launched the Dow Jones Islamic Market Index (DJIMI) and the FTSE Global Islamic Index Series (GIIS) respectively. Nowadays, apart from Dow Jones and FTSE, MSCI Barra and Standard & Poor's also offer numerous Islamic equity indices.

Islamic indices are said to be a hit because they have been outperforming conventional indices, mainly because they do not have any exposure to the conventional financial sector stocks, which have been affected by the credit crunch triggered by the subprime mortgage crisis in the US. Consequently non-Muslims are beginning to look at Shariah, as an alternative to the conventional portfolio. In India also the immense potential of Islamic finance can be judged through its vast muslim population of about 150 million which accounts for 13% of total population. To meet the growing demand for Shariah compliant Investment avenues in capital markets, number of Shariah complaint Indices were launched worldover. The number of Shariah-compliant stocks in India are much higher than in Muslim countries put together, thus providing larger scope for Muslim investors. 61 per cent Indian companies are found Shariah-compliant in India against 57 per cent in Malaysia, 51 per cent in Pakistan and a mere 6 per cent in Bahrain. One of the important players of Islamic Finance around globe is Malaysia. Malaysia by establishing the foundation of legal, regulatory and Shariah framework, is increasing the number of players to enter Islamic Finance. To enhance Shariah governance, it has been successful in strengthening the overall Islamic finance landscape over the last 30 years. The Islamic securities market of Malaysia has achieved phenomenal growth in offering Shariah compliant equities. Also a number of Islamic Indices were launched to keep track of the growing Islamic equities.

Need for the Study

While the number of Shariah Compliant indices have been launched to meet the growing demand but very few studies have been conducted on such Indices despite their increasing popularity. Few studies have been made addressing the issue of performance of Shariah compliant equity funds. While some of the studies concluded that islamic equity funds underperform their conventional counterparts because of limited diversification (Hassan 2002). Others argued that their performance is at par or even better than their counterparts [Hussein and Omran (2005)]. While other researches have shown that it varies in bull and bear market periods [Hussein (2004), Abdullah et. al. (2002)] and different regions

[Hoepner, Hussain and Rezec (2010)]. This paper studies the impact of Shariah screening on the performance of S&P BSE 500 and aims to find answer to the following questions:

- Does the Islamic index achieve lower return levels compared to its counterpart?
- Does the Islamic index bear higher risk than its counterpart?
- What happens to the performance of Islamic Index during crises period?
- Is there difference in the performance of Islamic indices in Malaysia and India.

The rest of the paper is organized as follows: Section 2 provides the background of Islamic Indices studied in the paper. Section 3 summarizes the empirical studies on Islamic the performance of Indices. Section 4 highlights the hypothesis of the study. Section 5 gives the description of data and methodology used in the study. Results have been discussed in section 6 and subsequently section 7 presents the summary and conclusion.

Background of Islamic Indices

Over the last decade or so, a number of developments have taken place in the global stock market, two important among them being the diversion of both Retail and Institutional investors towards socially responsible investment portfolios and increasingly linking investments to indices. The investors particularly in Muslim countries were driven to look for alternatives to conventional investment due to the Asian Financial Market crises in 1997 and more importantly the recent meltdown in the capital markets world-over. To meet the demand for Shariah Compliant Investment Avenues in equity Markets, Number of exchanges world-over have launched Islamic indices. Recognizing the need for such indices, MSCI Barra launched a global family of Islamic indices in 2007 designed to reflect Shariah investment principles while retaining replicability for international investors. The MSCI Global Islamic Indices cover over 50 developed and emerging countries and over 50 regions such as the Gulf Cooperation Council (GCC) countries and Arabian markets.

MSCI India Islamic Index and MSCI Malaysia Islamic was also launched by MSCI Barra in 2007. MSCI India Islamic Index and MSCI Malaysia Islamic is a subset of MSCI India Islamic Index and MSCI Malaysia Index. Following Shariah investment principles, MSCI excludes securities using two types of criteria: business activity and financial ratios. The first criterion leads to the exclusion of all the companies which are directly active in, or derive more than 5% of their revenue from, Alcohol, Tobacco, Pork ,Conventional Financial Services ,Defense / Weapons , Gambling / Casino, Music , Hotels, Cinema and Adult Entertainment related activities . Since Shariah investment principles do not allow investment in companies deriving significant income from interest or companies that have excessive leverage, MSCI uses the following three financial ratios to screen for these companies:

1. Total debt over total assets.
2. Sum of a company's cash and interest-bearing securities over total assets.
3. Sum of a company's accounts receivables and cash over total assets.

Securities will be considered non-compliant with respect to financial screening if any of the financial ratios exceeds 33.33%.

If a company derives part of its total income from interest income and/or from prohibited activities, as per Shariah investment principles this proportion must be deducted from the dividend paid out to shareholders and given to charity. Accordingly MSCI applies a "dividend adjustment factor" to all reinvested dividends. The "dividend adjustment factor" is defined as: (total earnings – (income from prohibited activities + interest income)) / total earnings.

The composition of the MSCI Islamic Index is reviewed on an annual basis at the May Semi-Annual Index Review and also on a quarterly basis. New additions to the MSCI Equity Indices resulting from a Quarterly Index Review are

considered for inclusion to the Islamic Indices at the following Quarterly Index Review. If an Islamic Index constituent turns non-compliant due to Regular monthly and annual changes, then that security is deleted from the Islamic Indices at the effective date of change (as of the close of the last business day of the given month).

Literature review

The performance of Shariah compliant investments has always remained a debatable issue. Despite the overwhelming demand for Islamic Investments, the past literature on Islamic Investments performance is scarce. The studies made on Shariah complaint Investments deal with the different aspects like the Risk, Return and overall performance of the Islamic Investments.

Abdullah et. al. (2002) while studying 67 Malaysian unit trust funds using Sharp Ratio, the Information Ratio and the Modigliani Measure revealed that both Islamic fund and the conventional fund slightly underperformed the Kuala Lumpur Composite Index (KLCI) benchmark. The study further suggests that depending on market conditions and personal preferences investors have the option to switch between these funds.

Hakim and Rashidian (2002) while examining the relationship between Wilshire 5000 Index, the DJIM, and the risk-free rate over the time period 1999-2002 using cointegration and causality analysis and have found absence of any correlation between the DJIM and the Wilshire 5000 Index, or the three month Treasury bill while as the Wilshire 5000 is strongly influenced by movements in interest rates.

Hassan (2002) examined the issues of market efficiency and the time-varying risk-return relationship for the DJIMI over 1996-2000. Using several statistical tests, such as serial correlation; variance ratio; and Dickey-Fuller tests, the study revealed that DJIMI returns are normally distributed and the DJIMI has significant market efficiency. The study also found that there is operational inefficiency with DJIMI that needs to be corrected to make the risk behavior of DJIMI stable overtime.

Ismaila and Shakranib(2003) while studying the conditional relationship between beta and return of 12 Islamic unit trusts for the period from 1 May 1999 to 31 July 2001 discovered a significant positive relationship in up-markets and a significant negative relationship in down-markets.. They concluded that beta could be used as a tool in explaining cross-sectional differences in Islamic unit trusts' returns and as a measure of market risk. They also suggested that investors in Islamic unit trusts tend to be risk averse by investing in Islamic unit trusts, which have a lower level of risk.

Elfakhani, Hassan and Sidani (2005) while studying a sample of 46 Islamic mutual funds revealed that the American Equity Fund, the combined Emerging Fund ,the European Equity Fund, and the Technology Fund all had positive security selection, but only the Emerging Equity Fund had statistically significant positive selectivity. Further, they revealed that Asian Equity Fund performed badly attributing the reason of their inferior performance to Asian crisis.

While studying weekly data over a period of 2002-2006, Muhammad and Mokhtar (2007) examined the performance of nine Islamic Equity Funds in Malaysia. Using standard deviation, coefficient of variation, systematic risk and techniques of Treynor and Sharpe they revealed that only four out of nine funds had outperformed the Benchmark Index (KLSI). On the contrary, the study indicated that all the funds followed defensive investment policy as well as relatively low sensitivity to the market.

Albaity and Ahmad (2008) have analysed the performance of the Kuala Lumpur Shariah Index against the Kuala Lumpur Composite Index using risk-adjusted return measurements and their long-term and short-term relationships

over a period from 1999 to 2005. They have applied three separate measurements of risk-adjusted returns, unit root analysis, bivariate Granger causality between KLSI and KLCI, and finally Vector Autoregression and Impulse Response Analyses in order to achieve the desired results. Their findings suggest absence of significant statistical differences in risk-adjusted returns between Islamic and conventional stock market indices although the KLSI had lower returns, but it also had lower risk exposure than the KLCI. Also their results were not in support of any clear evidence for the extra cost and lesser diversification benefit associated with screened investments. Regarding the short- and long-run relationships the study depicted that KLCI and KLSI, individually, are non-stationary in the level (i.e. integrated of order 1).

Studying the performance of Islamic funds over period of five years (2001-2006), Kraeussl and Hayat (2008), estimating Jensen alphas for 59 international Islamic equity funds have found that 31 Malaysian funds considerably underperformed their respective equity market benchmarks, while the performance of 21 global funds was as good/bad as that of their respective equity benchmarks and 7 other funds significantly outperformed their market benchmarks.

Collina and Gatti (2009) revealed that the Shariah compliant portfolio behaved better in periods of boom, fast growth or crisis periods and underperformed during moderate periods while constructing a hypothetically Shariah compliant investment portfolio for a period from growth, etc), while it underperformed the benchmark when the market was moving in a more quiet way June 2006 to 2009. The study also revealed that constructed portfolio was riskier than the market. The study has concluded that Islamic Italian equity portfolio is a totally different product from the other Islamic equity ones offering a competitive trade-off between alpha and risk.

While employing Risk adjusted measurement techniques of Sharpe index, Treynor Index and Jensen alpha and examining the performance of the Islamic index and common index (Nifty) in India from January 2007 to December 2010 to see if there is any significant difference along the parameters of risk and return Dharani and Natarajan (2011) found that Nifty Shariah has underperformed during the sample period. The risk adjusted returns for the both indices revealed that both underperformed with respect to risk free rate of return. They also found that Nifty Shariah was low volatile than Nifty index. The Overall conclusion of the study was that Nifty Shariah and Nifty indices in India are performing in a similar manner.

Mansor and Bhatti (2011) using monthly aggregate returns of 128 Islamic mutual funds and 350 Conventional mutual funds from 1996 to 2009 analyzed the performance of Islamic and Conventional Malaysian Mutual funds. They found that there is strong correlation between the Islamic and Conventional MF portfolios with the market portfolio. The findings revealed that, on average, performance of both the Islamic and Conventional MF portfolios are higher than the KLCI index during the reference period.

Hypothesis

Taking into consideration the objectives of the study, the following hypothesis is set for the study:-

H1: The Returns of Shariah compliant Index are not significantly different from its index counterpart.

Materials and Methods

The above stated objectives & hypothesis testing has been carried out using the secondary data drawn from time series data of daily closing prices of S&P BSE 500 Shariah Index and its counterpart. To assess and compare the performance of Shariah Index with the corresponding conventional Index, monthly returns have been calculated by taking logarithmic differences of the price Index so that:

$$R_{i,j} = [\text{Log}(P_{i,j}) - \text{Log}(P_{i,j-1})] \quad (1)$$

Since the Islamic indexes and their conventional counterparts are not from the same risk category, the Capital Asset Pricing Model (CAPM) will be used in order to estimate the risk-adjusted returns, which is of the form:

$$\{(R_{i,t} - R_{f,t}) = \alpha_{i,t} + \beta_{i,t}(R_{m,t} - R_{f,t}) + \varepsilon_{i,t}\} \quad (2)$$

Since $(R_{m,j} - R_{f,j})$ is the excess return on the benchmark index m in period t, if beta is greater than one, this indicates that index i has higher risk than the benchmark index m. Further, if alpha is positive and statistically significant, it indicates that the index i outperforms the market index m.

Based on Jensen measure and given βi,t from equation (2), the risk-adjusted returns have been calculated using the following equation:

$$\overline{R}_{i,t} = \{R_{i,t} - R_{f,t} - \beta_{i,t}[R_{m,t} - R_{f,t}]\} \quad (3)$$

To test the null hypothesis that the monthly excess returns (market-adjusted return) over the period under study is equal to zero or more/less, the market-adjusted return is calculated as follows:

$$MAR_{i,t} = R_{i,t} - R_{crp,t}, \quad (4)$$

Where $MAR_{i,t}$ is the market adjusted return for the index and is the difference of the return on Shariah Index and its corresponding benchmark Index calculated on the basis of both raw returns as well as the risk adjusted returns. In order to test the null hypothesis of no difference t test is used as variables follow students t distribution.

Proxy for Risk-free Rate

The yield on one month Treasury Bill is taken as a proxy for Risk-free Return in case of Malaysia while as three month Mibor is taken as proxy for Risk-free Return in case of India.

Proxy for Market portfolio

To capture the risk factor, we have used world portfolio as market benchmark for both the Indices. Thus we use MSCI All country world index established by Morgan Stanley database, as an appropriate proxy for the market portfolio.

Data

We have used the MSCI India Islamic Index and adopted the MSCI India index as the corresponding index. In case of Malaysia we have have used MSCI Malaysia Islamic Index and adopted the MSCI Malaysia index as the corresponding index Our reference period consists of 11 years monthly data i.e. January 2003- December 2013. Also the crises period consists of data ranging January 2008-March 2009.

Results and Discussion

Table-1 presents monthly returns of the MSCI India Islamic and MSCI Malaysia Islamic Indices and their respective conventional Indices during the period under study and Crises period. A close introspection of the table reveals that in case of India Islamic Index has shown inferior performance as compared to its conventional counterpart during the reference period. However the Islamic Index was found to be less volatile than its counterpart in case of India. The results were totally contrast in case of Malaysia where Islamic Index was found to yield better mean return and exhibited more risk as compared to its conventional counterpart during the reference period.

During the crises period, in case of India Islamic Index has performed better with relatively high mean returns and low risk as compared to its unscreened Index. In case of Malaysia, there is not much difference between the performance of Islamic index and conventional index during crises period.

Table-1: Average Monthly Raw Returns

	Index	Minimum	Maximum	Mean	Std. Dev	Skewness	Kurtosis
Entire Period	**MSCI India**	-0.1460	0.1356	0.0049	0.0397	-0.4680	1.5450
	MSCI India Islamic	-0.1567	0.1261	0.0042	0.0383	-0.5860	2.1360
	MSCI Malaysia	-0.0843	0.0642	0.0037	0.0215	-0.5000	1.9160
	MSCI Malaysia Islamic	-0.1031	0.0695	0.0042	0.0239	-0.6600	2.9690
Crisis Period	**MSCI India**	-0.1460	0.0498	-0.0310	0.0573	-0.2250	0.5000
	MSCI India Islamic	-0.1567	0.0632	-0.0282	0.0570	-0.4870	0.4190
	MSCI Malaysia	-0.0843	0.0254	-0.0176	0.0271	-0.9560	1.3820
	MSCI Malaysia Islamic	-0.1031	0.0389	-0.0176	0.0351	-0.8550	1.2490

Source: All the above measures have been calculated using the time series data obtained from the official website of MSCI global equity Indices.

Table-2: OLS Estimation

Index	**Alpha**	**Beta**	**R^2**
MSCI India	.0039	1.446	.58
	(.09)*	(<.001)***	
MSCI India Islamic	.003	1.373	.57
	(1.29)	(<.001)***	
MSCI Malaysia	.001	.716	.479
	(.419)	(<.001)***	
MSCI Malaysia Islamic	.002	.763	.447
	(.299)	(<.001)***	

Notes: Three and one asterisk indicate significance at the 1 and 10 percent level respectively.

Source: All the above measures have been calculated using the time series data obtained from the official website of MSCI global equity Indices.

Since the Islamic Index and its counterpart is not from the same category of risk, so to analyze the risk involved in the sample Indices and whether Islamic Index outperforms market Index we have used CAPM model to estimate risk adjusted returns of the Indices (as shown in equation-2). The results of OLS estimation has been presented in table 2.

It can be seen that the beta of both MSCI India Islamic and its conventional Index is much higher than 1 which indicates that the Indices are more risky than the Benchmark Index (MSCI AC Index). Also the high risk nature of Indices is confirmed by significance at 1% level. However when the MSCI India Islamic Index is compared to its counterpart, it can be seen that Islamic index is slightly less risky than the conventional index. In case of Malaysia results are reverse; wherein both Indices are less risky then Benchmark (MSCI AC Index) and results are statistically significant at 1% level. Also MSCI Malaysia Islamic is found to carry more risk when compared to its counterpart conventional Index. When Indian and Malaysian Indices are compared to each other, Indian Indices are found to be much more risky than Malaysian ones.

It can also be seen from Table 2 that Alpha is positive but statistically insignificant for all but MSCI India Index (at 10%). This is indicative of the fact that the Islamic Index does not provide any marginal returns over benchmark Index. When Islamic Indices performance is measured on the basis of alpha , results were consistent with the earlier results based on raw returns. This is substantiated by R^2 statistic which shows variations in the return of Index. It can be seen from the above table that R^2 is satisfactory and not very high for both all the indices, which indicates that the movement of the Indices under study is quite different from that of global market.

Since the MSCI Islamic Indices and MSCI conventional do not consist of similar type of companies, thus are likely to differ in risk. As such to draw the meaningful conclusions about the performance of the sample Islamic Index compared to its counterpart Index, it becomes important to calculate Risk-adjusted returns. Using OLS estimation, risk adjusted returns of the Indices under study have been calculated which are presented in table 3.

A close introspection of the risk–adjusted returns of the sample Indices reveals that MSCI India Islamic Index underperforms its corresponding unscreened Index throughout the period under reference. While as in case of Malaysia, Islamic Indices outperform its counterpart Index during the period under study. For crises period, risk adjusted returns revealed that in both countries India and Malaysia it was Islamic Index which performed better than the respective conventional Index.

Table-3: Risk Adjusted Return

	Index	Minimum	Maximum	Mean	Std. Dev	Skewness	Kurtosis
Entire Period	**MSCI India**	-0.0784	0.0806	0.0040	0.0261	-0.3490	0.9570
	MSCI India Islamic	-0.0954	0.0736	0.0030	0.0256	-0.3430	1.2550
	MSCI Malaysia	-0.0385	0.0387	0.0011	0.0155	-0.1440	0.0260
	MSCI Malaysia Islamic	-0.0414	0.0497	0.0016	0.0178	-0.0180	0.0720
Crisis Period	**MSCI India**	-0.0514	0.0501	0.0014	0.0297	-0.2010	-0.2120
	MSCI India Islamic	-0.0528	0.0492	0.0022	0.0289	-0.0230	-0.3580
	MSCI Malaysia	-0.0346	0.0257	-0.0040	0.0196	-0.067	-1.1400
	MSCI Malaysia Islamic	-0.0395	0.0297	-0.0029	0.0244	-0.0810	-1.4870

Source: All the above measures have been calculated using the time series data obtained from the official website of MSCI global equity Indices.

In order to test whether excess monthly returns (abnormal returns) of the Islamic Index is equal to zero, we have used parametric t-test (since in almost all the cases, returns are normally distributed). The results based on Market adjusted returns and Jensen Model have been presented in table-4.

A close introspection of the data presented in table 4 reveals that excess returns on Islamic Index exist but is not significantly significant in any of the case. Again the results reveal that there is no significant difference between Islamic and their counterpart Indices during the Crises phases. As such it can be safely concluded from the data presented in table 4 that there is no significant difference in the monthly excess returns of Islamic index and its counterpart.

Table-4: Mean Abnormal Monthly Returns of Islamic Indices

Period/Index	Market Adjusted	Jensen
Entire Period		
MSCI India Islamic		
Mean Abnormal Return	-.0007	-.0009
t- statistics	-0.9450	-1.3010
P-statistics	0.3460	0.1950
MSCI Malaysia Islamic		
Mean Abnormal Return	.0005	.0005
t- statistics	0.7890	0.7880
P-statistics	0.4310	0.432
Crisis Period		
MSCI India Islamic		
Mean Abnormal Return	.0003	.0008
t- statistics	0.8640	0.2410
p-statistics	0.4020	0.8130
MSCI Malaysia Islamic		
Mean Abnormal Return	-.0001	-.0004
t- statistics	-1.6170	-0.4920
p-statistics	0.1280	0.6310

Source: All the above measures have been calculated using the time series data obtained from the official website of MSCI global equity Indices.

Conclusion

This paper is sought to assess the performance of the MSCI India Islamic Index and MSCI Malaysia Islamic Index in comparison with their conventional Index. The study has investigated the performance achieved by Islamic Indices and its peer index during the period under study and crises period. Great attention has been devoted in answering the question of whether the risk is being well compensated for. To assess the performance of the Indices under study,

average monthly raw returns, risk adjusted monthly returns were calculated using the time series data of daily closing prices. To gauge the risk involved in the two categories of Indices beta and standard deviation has been used. Also to test the hypotheses, parametric t test has been used.

The estimation has revealed that Islamic Index has underperformed unscreened index in case of India during the period under study on the basis of raw return as well as risk adjusted returns but risk involved in case of Islamic Index was relatively less than that of conventional Index. The results revealed in case of Malaysia are totally opposite wherein the Islamic Index has yielded high returns and exhibited high risk than its counterpart index. However in both the cases Islamic Indices has performed better during crises period. When the mean abnormal returns for Islamic Indices were subject to t test, the hypothesis testing has resulted into the acceptance of the hypothesis that the returns of Shariah complaint index are not significantly different from its counterpart Index.

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