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AN ANALYSIS OF SHARIAH SCREENING METHODOLOGY

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ABSTRACT:

The paper aims to analyse the Shariah Screening Methodologies of four institutions: AAOIFI, DJIM, SEC and NSE. The method used in this study is qualitative research and the data collected is from online sources, such as journal articles and websites. The analysis shows that the Qualitative or Business screening is nearly the same, but the methodology differs in their Quantitative or financial screening. The differences arise due to varying interpretation of the Shariah texts. These differences bring about challenges to construct a uniform methodology for Stock screening. The analysis and findings of this research will help contribute to the changes that have taken place in the Shariah screening methodology and add to the existing knowledge. The research brings a fresh perspective while comparing the Shariah screening methodology of NSE with the other methodologies.

Keywords- *Stock screening, Shariah-compliant stocks, Screening Methodologies, Business screening, Financial screening*

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1. INTRODUCTION

The global Islamic finance industry has seen impressive growth, with the sector's assets reaching an estimated $6 trillion in 2025, according to LSEG (Bhoyroo, n.d.). One of the reasons for this development is the contribution of Islamic Financial Institutions and Banks along with many conventional financial institutions starting their Islamic window to tap the conservative Muslim population. Also, the demand for Islamic banking and Shariah-compliant products has increased with an annual growth rate of 10% over the last decade (Jeewoolall, 2024). The Islamic financing sector in Malaysia grew by 7.9% in 2023, outpacing conventional financing growth at 3.5%. This reflects the growing demand for Shariah-compliant financial products, including Islamic banking, investment funds, and

Sukuk markets. As the industry expands, the importance of adhering to Shariah principles particularly the prohibition of riba (interest), gharar (uncertainty), and maysir (gambling) has become increasingly critical for Muslim investors (Mohd Fuad Md Sawari et al., 2024).

To ensure compliance of the financial instruments with Shariah principles, investors rely on Shariah screening a process that evaluates whether a company's activities and financial practices align with Islamic law. This screening involves analysing a company's business operations and financial ratios, such as debt-to-equity ratios and income derived from non-Shariah-compliant activities. While Islamic finance is growing, the lack of uniformity in Shariah screening methods across different regions and Shariah boards creates challenges for the investors to decide a particular stock's Shariah compliance. These variations arise from differences in interpretations, regional practices, and evolving Shariah guidelines, leading to inconsistent assessments of Shariah compliance.

Shariah Screening Methodologies vary widely across different index providers, such as the Securities Commission Malaysia (SC), Dow Jones Islamic Market World Index (DJIM), FTSE Shariah Index Series, and MSCI Islamic Index (Mohd Fuad Md Sawari et al., 2024). These providers apply different criteria and thresholds to determine whether a company is Shariah-compliant. Some take a more detailed approach, listing specific non-compliant activities, while others adopt broader principles. Furthermore, the financial screening process varies significantly, particularly in the permissible thresholds for non-compliant financial activities such as interest-bearing debt and revenue from non-permissible activities.

The lack of a universal standard leads to inconsistencies in the Shariah status of companies. A company considered compliant by one provider may be deemed non-compliant by another due to differing interpretations of Shariah guidelines. Additionally, Shariah boards may revise their criteria over time, which can cause a company to shift from being compliant to non-compliant. These changes, in addition to variations in screening methods, create confusion for investors and hinder the ability to make consistent, informed decisions(Ho, 2015).

For Muslim investors, ensuring that their investments comply with Shariah principles is not only a religious obligation but also an ethical consideration. Investing in companies that engage in Shariah non-compliant activities, such as alcohol production or gambling, contradicts the core values of Islamic finance (Mohd Noor et al., 2018). Shariah screening provides a means for investors to avoid such companies and ensure that their portfolios are aligned with Islamic values.

While Malaysia has become a global leader in Islamic finance, other emerging countries, such as India, have lagged in the development of Sharia-compliant markets. Indian stock market has introduced Shariah-compliant stock indices like the NIFTY Shariah 50, NIFTY Shariah 500 and the S&P BSE TASIS Shariah 50. However, the screening methods of NSE & BSE differ from those in Malaysia and other institutions, contributing to variations in the selection criteria for Shariah-compliant stocks.

This disparity is particularly evident in the comparison between Islamic stock screening practices in Malaysia, Bangladesh, and other countries like Indonesia and the United States. While Malaysia’s screening criteria have evolved to become more stringent, other countries, such as Indonesia, still have less rigorous standards (Razali et al., 2023). These differences reflect the unique legal, cultural, and religious contexts in each country, as well as the varying interpretations of Shariah law by different Shariah boards.

This paper explores the differences in Shariah screening methodologies employed by various global index providers and critically examines the need for harmonizing these practices. By analysing the screening methods used in AAOIFI, DJIM, SAC& NSE, the study aims to provide valuable insights that could help regulators, investors, and financial institutions navigate the complexities of Shariah-compliant investing.

2. LITERATURE REVIEW

Research on Shariah-compliant stocks or equity is done tremendously in Malaysia, Indonesia, the UK, Germany, the USA and other developed countries. There is a paucity of research and awareness level of Shariah-compliant stocks in Indian stock markets, even among investors. The National Stock Exchange of India and its counterpart, the Bombay Stock Exchange have a thematic index for specific categories of Stocks of which Shariah-compliant stocks are one of them.

(Hanif, 2024) examines the issues in Shariah-compliant stock screening from both Shariah and professional perspectives, analyzing the methodologies of eight institutions. It identifies weaknesses such as inconsistent tolerance limits, differing calculation methods, inadequate income purification, and unclear regulations on bayʿ al-ṣarf and bayʿ al-dayn. It also highlights the neglect of critical areas like unethical marketing, sales practices, and environmental concerns. The study proposes a unified Shariah-compliance ranking framework to enhance standardization and address these challenges in Islamic stock markets.

(Kalimuthu & Shaik, 2024)The study examines the influence of religion on investor behavior and Shariah-compliant indices, focusing on the Indian stock market. During Ramadan, reduced speculation leads to lower market volatility and positive returns for Shariah indices like Nifty 25 Shariah and Nifty 500 Shariah. Returns are higher mid-week, particularly on Tuesdays and Wednesdays, with lower volatility during Ramadan. India's large Muslim population and the growth of Shariah-compliant companies have boosted Islamic finance. Limitations include focusing solely on Indian Shariah indices without global comparisons. Findings benefit investors, fund managers, and researchers in leveraging daily price trends and fostering ethical investment strategies in emerging markets.

(Rohimah et al., 2023) Shariah screening methodologies face challenges in stock evaluation and interpretation of Islamic rules. Scholars use qiyas (analogy) for new judgments, leading to varied regulations due to differing interpretations. This study highlights variations in business activity and financial ratio tests among nine indexes, raising concerns for Islamic economics. Differences in standards may influence the designation of Shariah-compliant stocks, affecting investor appeal. Future research should quantitatively compare these standards within a single index to assess their impact on investor decisions.

(Jalil, 2019) evaluates and compares Shariah stock screening practices in Bangladesh (DSE, CSE) and Malaysia (Bursa Malaysia), highlighting differences in ratios, denominators, numerators, and benchmarks. Unlike Malaysia's unified methodology, Bangladesh lacks consistency, leading to confusion. The study suggests adopting a single approach within jurisdictions to enhance clarity and alignment. Findings provide insights for authorities like BSEC to refine and update criteria, ensuring improved standards. Secondary data from standards, publications, and AAOIFI guidelines inform this descriptive research.

(Munusamy, 2018)This study examines the effect of Islamic calendar on the returns and volatility of Shariah and common indices in India, using data from Jan 2010 to March 2016. Findings reveal higher returns on Wednesdays and during Ramadan for Shariah indices, with Ramadan showing significant positive impacts. Risk-adjusted performance indicates Shariah indices outperform during Ramadan. Investors may achieve abnormal returns by investing in Shariah stocks during Ramadan, with implications for policy-makers, fund managers, and researchers to optimize portfolio strategies in emerging markets.

(Habib & Ahmad, 2017) Shariah screening is vital for Islamic capital market, determining stocks' compliance status. Efficient and practical criteria enhance confidence among investors, companies, and regulators. The AAOIFI's Shariah screening standards hold global significance but require substantial revisions. This paper recommends revising filters like non-compliant income to total income, replacing interest-bearing debt to market capitalization with interest expense to total income, and simplifying ratio calculations. These proposed changes, grounded in Shariah principles, would create a more robust, straightforward, and inclusive screening process, benefiting all market stakeholders.

(Lusyana & Sherif, 2017) Examines Shariah-compliant investments in Indonesia and their stock market impact. Using an event study methodology, it identifies a significant positive effect of Shariah-compliant investment inclusion on stock returns within a 41-day event window. Indices such as ISSI and JII demonstrated superior Sharpe performance compared to JCI, showcasing the potential for ethical investments. The research highlights the need for policymakers and regulators to foster Shariah investing and position ISSI as a benchmark for Shariah market activities. It also calls for further research, including the application of multi-factor models and analysis of post-acquisition performance, to deepen insights into Shariah investment structures.

(Khouildi et al., 2017) Shariah screening methodologies vary, leading to inconsistent results and obstacles for foreign investment. DJIM's strict passive screening excludes more stocks compared to SAC-SC, highlighting the need for harmonized standards. The lack of standardization affects investor confidence and hampers the Islamic equity market's growth. Findings reveal that Islamic indices perform comparably to conventional ones, offering financial and ethical benefits without sacrificing returns. They also outperform during financial crises, suggesting potential as a hedging strategy. Standardized practices can further enhance their appeal and reliability for investors globally.

(Kasi & Muhammad, 2016) Shariah screening methodologies vary across countries due to differences in feasibility, implementation timelines, and economic viability. While Asian nations like Malaysia and Singapore aim for stricter standards, the U.S. implemented stringent measures from the inception of its Islamic index in 1999. Shariah Supervisory Boards determine methodologies unique to each country, reflecting the flexibility allowed by Maqasid al-Shariah. Harmonizing strict Shariah indices globally could enhance understanding, interaction, and economic cooperation among Muslim nations.

(Dawar, 2015)This study examines whether accrual-based earnings better predict future cash flows than current cash flows for Shariah-compliant companies in India. Using panel data regression on the CNX Nifty Shariah Index over 10 years, the study finds that current cash flows have superior predictive power compared to aggregate earnings. Disaggregating earnings into accruals and cash flows does not enhance prediction accuracy. The results suggest that accruals may not add significant information for future cash flow predictions, possibly due to opportunistic earnings management. Implications include the need for Indian regulators to improve accounting standards enforcement to enhance accrual-based information quality for Shariah investors.

(Gamaleldin, 2015) Establishing harmonized Shariah stock screening and purification standards is crucial for improving the credibility of Shariah-compliant portfolios. While AAOIFI Standard 21 provides a solid foundation, regular updates incorporating feedback and collaboration between scholars and finance professionals are necessary. Standards should uphold Shariah principles emphasizing justice and fairness while avoiding rigid formalities. Screening should align with Socially Responsible Investment, focusing on business activities, leverage, and non-permissible securities and income ratios, with total assets preferred over market capitalization. Enhanced transparency, including better disclosure of income purification and adoption of Shariah-based taxonomies, is key to advancing Islamic finance.

(Adam & Bakar, 2014)Shariah-compliant stock screening combines automated tools and manual checks to ensure accuracy. Automated screening alone may misclassify companies, as subsidiaries can engage in non-compliant activities despite a compliant parent company. Business screening often uses industry classifications but requires detailed manual review of reports and surveys. Financial screening relies on financial statements but faces challenges like unclear income segregation. Regional guidelines, such as Malaysia's stricter criteria, highlight inconsistencies in global standards. Experts advocate for a unified, standardized framework to enhance Islamic equity's credibility and consistency, while socially responsible investment parallels offer valuable insights for Shariah-compliant investment strategies.

(Albaity & Ahmad, 2011) investigates the differences in stock returns and influencing variables between Shariah and non-Shariah-compliant firms. The paper found no significant difference in returns, indicating no lossin investing in Shariah-compliant firms. Key variables affecting returns include market-to-book ratio, total debt, and market risk for non-Shariah firms, while only market-to-book and price-earnings ratios matter for Shariah firms. Smaller firms yield higher returns than larger ones, countering criticisms of Shariah screening. Investors seeking better returns should consider smaller, value-driven firms over large, growth-focused ones.

(Khatkhatay, 2006)highlights the need to enhance Shariah compliance screening by ensuring complete adherence across all operations, including subsidiaries, and excluding companies with any non-compliant activities and income. The paper suggests replacing market capitalization with total assets in screening ratios and tightening financial criteria, such as reducing debt-to-asset and interest-income thresholds. A new measure is proposed to limit interest-based investments to 10% of total assets. Furthermore, the paper advocates eliminating the flawed cash and receivables ratio and introducing a reporting system for industries like hotels and shipping, promoting broader investor options while upholding strict Shariah compliance standards.

3. METHODOLOGY USED

The study is based on the secondary research and adopts qualitative research methodology employing Shariah screening methodology adopted by AAOIFI, DJIM, SAC, & NSE. The data comprises the methodology documents available on their respective websites. Updated data as of December 1, 2024, is considered, as DJIM and SAC have brought changes in their methodology.

OBJECTIVES OF THE STUDY

1. To analyse the Shariah screening methodologies adopted in the selected stock markets.
2. To compare the methodologies and suggest revisions in them.

SCOPE OF THE STUDY

The Shariah screening methodologies selected for the study are the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI), Dow Jones Islamic Market (DJIM), Securities Exchange of Malaysia (SEC) and National Stock Exchange (NSE).

4. REVIEW OF CURRENT SHARIAH SCREENING METHODOLOGIES

To facilitate the investors who want to invest in ethical and Shariah-compliant stocks there is a need to screen the stocks as per their business activity and financials. The Shariah screening methodology adopts two levels of screening namely – Qualitative and Quantitative screening (Ashraf et al., 2017; Ashraf & Khawaja, 2016)

Qualitative screening is the business screening of the company or specifically the core business activity the company is involved in. If any activity that is Shariah non-compliant and is part of the core business of the company or any of its subsidiaries then that company and the stock of that company listed in the stock exchange becomes Shariah non-compliant. Once the core business of the stock is examined the stock that is inconsistent with the precepts of Shariah is removed and no further examination is carried out on that stock(Siddiqui, 2007). The methodology in Qualitative screening differs If the stock qualifies in the Qualitative screening then Quantitative screening is applied thatis financial ratio screening using the balance sheet.

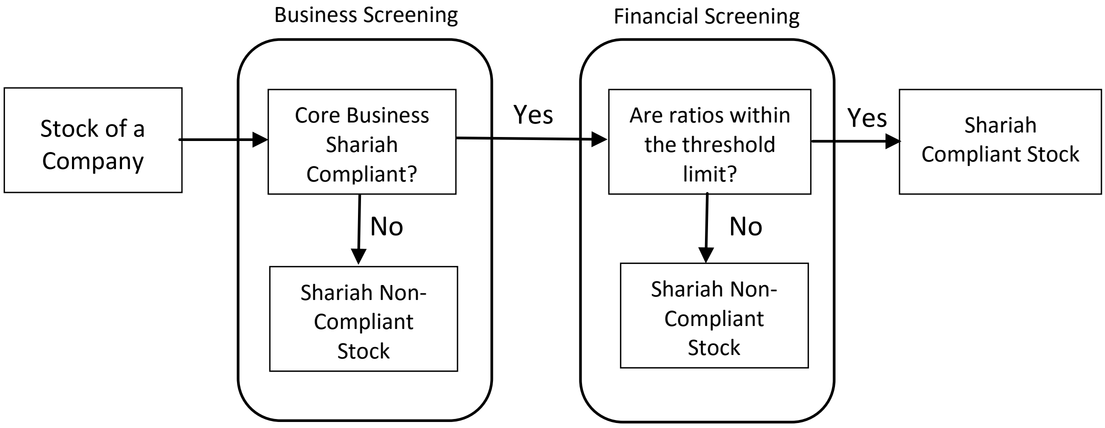

Figure 1

Source: Adapted from (Adam & Bakar, 2014)

AAOIFI (Accounting and Auditing Organisation of Islamic Financial Institutions)

AAOIFI is an international, non-profit organization established in 1991. It is based in Bahrain and plays a critical role in developing and promoting Shariah-compliant standards for the Islamic finance industry. (*Shari'ah Standards*, 2017). AAOIFI's standards of Shariah screening involve the below formulae:

i) Non-permissible Income - The Company which has its core business in any haram activity as per Shariah becomes non-Shariah compliant. If the core activity of the company is halal and still the company earns revenue from the haram activities then there is a threshold maintained by AAOIFI, that is 5% of the total revenue.

ii) Interest-bearing debt should be less than 30% of the total market value of the equity and Interest taking deposits should also be less than 30% of the total market value of the equity.

iii) In terms of liquidity position, the cash and accounts receivables should be less than 30% of the total company's assets.

DJIM (Dow Jones Islamic Market)

DJIM is a stock market index that screens companies based on their compliance with Shariah principles. Launched in 1999 by Dow Jones & Company, it aims to provide investors with a portfolio of Shariah-compliant stocks by excluding companies involved in activities forbidden in Islam, such as alcohol, gambling, and interest-bearing finance. DJIM revised its methodology in September 2023 by removing the liquidity screen and maintaining only the debt screen. (*Dow Jones Islamic Market Indices Methodology*, 2024). The formula goes as below:

i) Non-permissible Income- This screen in DJIM is the same as the AAIOFI and the threshold is 5% of haram income is accepted of the total income in one financial year.

ii) The Leverage compliance threshold is kept at 33% that is the level of Interest-bearing debt should be less than 33% of the total market value of equity.

SEC (Securities Exchange of Malaysia)

SAC is a key body in the Islamic finance industry, particularly in Malaysia. It was established by the Securities Commission of Malaysia (SC) in 1996 to ensure that financial products and services adhere to Shariah principles. The SAC plays a crucial role in providing rulings and guidelines on matters relating to Islamic capital markets, including screening of stocks and other investment instruments. Its primary function is to evaluate and certify whether products are Shariah-compliant, offering guidance to financial institutions, regulators, and investors. (*Shariah-Compliant Securities Screening Methodology*, n.d.). The methodology is specific to the country and the formulae go as below:

i) Non-permissible income screen –There are two different thresholds kept for the haram activities that are justified by the authorities of the Securities Commission of Malaysia. A 5% threshold is kept for the income generated through haram activities like conventional banking, liquor, gambling, tobacco and the like. Whereas, a 20% threshold is kept for the income generated from the rentals received from the haram activities to put it in simple words.

ii) Financial benchmark- The Financial benchmark includes two ratios. The first one is a cash over total assets ratio and Debt over total assets ratio. Here, both the ratios must be less than 33%.

NSE (National Stock Exchange)

The NSE Shariah Index is an index developed by NSE to track the performance of Shariah-compliant companies listed on the exchange. The index aims to provide investors with a benchmark for investing in companies that adhere to Islamic principles of business, excluding those involved in activities such as alcohol, gambling, and interest-based financial services, which are considered non-compliant with Shariah law. The ratios used for the Shariah compliance differ significantly from the prominent Shariah methodology mentioned above. (*Methodology Document of NIFTY50 Shariah Index NIFTY500 Shariah Index NIFTY Shariah 25 Index*, 2020). The ratios are as follows:

i) Interest-bearing debt should be less than 25% of the total assets. This ratio shows a more stringent approach than the previous methodologies.

ii) Total interest income plus returns from interest-based investments should be less than 3% of the total income. Interest-based investments are clearly stated in this ratio which was missing in any previous methodologies.

iii) Total accounts receivables plus cash and bank balances should be less than 90% of the total assets.

5. DISCUSSIONS

Institutions	Non-Permissible Income Screen	Debt Screen	Cash Screen	Interest Screen
AAOIFI	$\frac{Prohibited\ Component}{Total\ Income} < 5\%$	$\frac{Total\ Debt}{Market\ Capitalisation} < 30\%$	NA	$\frac{Total\ Interest\ taking\ Deposits}{Market\ Capitalisation} < 30\%$
DJIM	$\frac{Non-permissible\ Revenue}{Total\ Revenue} < 5\%$	$\frac{Total\ Interest\ bearing\ Debt}{24\ month\ avg.market\ cap.} < 33\%$	NA	NA
SAC	$\frac{Non-Compliant\ business\ activities}{Total\ Income} < 5\%\ \&\ 20\%$	$\frac{Interest\ bearing\ Debt}{Total\ Assets} < 33\%$	$\frac{Cash}{Total\ Assets} < 33\%$	NA
NSE	$\frac{Interest\ Income\ + Returns\ from\ interest\ based\ investments}{Total\ Income} < 3\%$	$\frac{Interest\ bearing\ Debt}{Total\ Assets} < 25\%$	$\frac{Receivables\ + Cash\ \&\ bank\ balance}{Total\ Assets} < 90\%$	NA

Table 1

Comparison of Methodologies

The table above compares the financial screening of the two macro-level methodologies (AAOIFI & DJIM) and two micro-level methodologies (SAC & NSE).

Non-Permissible Income Screen

Through analysis, it is clear that the Non-permissible income threshold is set at 5% in all the methods (20% specific to certain rental income and income from cinema in the case of SAC). As per the Qur'an (The holy book) and Hadith (Teachings of Prophet Muhammad), the two main sources of Shariah, do not mention allowance of any percentage of non-permissible income. A 5% threshold for non-permissible income came from Ijtihad (rulings by Islamic scholars). The reason given for this allowance is the dependency on conventional banks in terms of financial transactions and safekeeping of the money, as well as minor operations involving liquor, pork, gambling etc. which cannot be avoided. Different methods of Shariah screening have different terms in numerators, (a) Prohibited income – Income earned from the Shariah prohibited activities of the business. (b) Non-permissible income – Income earned from the activities of the business which are not permissible as per Shariah. (c) Non-Compliant activities – It is income earned from Shariah non-compliant activities. (d) Interest Income plus revenue from interest-based investments – Interest Income is not allowed as per Shariah and a clear mention of revenue from interest-based investments is mentioned in this method. Interest-based investments include any investment in businesses which are involved in non-permissible business. The non-permissible businesses include but are not limited to businesses involved in Alcoholic beverages, Broadcasting & Entertainment, Conventional banking & Insurance Services, Gambling, Hotels, Media Agencies, Pork-related products, Restaurants & Bars, Tobacco, Trading of Gold & Silver and Weapons & Defence.

Debt Screen

The threshold in this ratio varies from 25% to 33%. The 33% benchmark has come from a hadith in which the Prophet advised Saad-ibn-Abi Waqas that donating one-third of the wealth is too much and that donation should not be more than one-third. Shariah scholars have taken this hadith as a reference for one-third or 33% benchmark threshold (Obaidullah, 2015). The 30% threshold is for the safety of managing the index turnover and follows the same logic. Generally, less than 25% is considered a minority in Indian companies, so Interest-bearing Debt represents minority involvement in capital of the company. A specific reason is not mentioned, but for being on the conservative side the tolerance is kept at 25% *(NSE Method).*

The Numerator remains the same which is Debt or Interest-bearing Debt. As there are no Islamic banks in India, borrowings of a company will be considered as Interest-bearing Debt. An interesting distinction is in the denominator where AAOIFI & DJIM have market capitalisation and SAC & NSE have total assets. There are many studies done to justify the correct measure of the value of a company, studies have shown that total assets do not represent the true value of a company as there is a difference in valuing the tangible assets and intangible assets (Malik et al., 2024). Also, industries in the heavy machinery sector have a good amount of fixed assets whereas technology sector companies are low on assets but have high market capitalisation.

With the Debt screen, we try to measure the amount of borrowings the company has and whether is it within the permissible level, for the avoidance of Riba which is prohibited as per Shariah and mentioned in the primary source (Qur’an).

Cash Screen

The Ratio to measure the percentage of cash & receivables is not a measuring the criteria in AAOIFI. This measure was earlier in DJIM but was removed to make the methodology simple as per the opinion of the Shariah Supervisory board of DJIM and this was removed on February 14, 2023 (*Modification to the Methodology of the Dow Jones Islamic Market Indices*, 2023).

Whereas, SAC and NSE have kept the cash ratio with total assets in the denominator. SAC calculates cash in the balance sheet of the company with the total assets. The threshold for this ratio iskept at 33% with the same reasoning as mentioned for the above screens. Similarly, NSE has taken cash and added trade receivables in the numerator term and denominator total assets. The interesting threshold to note here is 90% which is to be maintained. This is too high compared to SAC. The reason for this threshold is not mentioned but it shall be based on the ruling that liquid assets should not exceed the illiquid assets of a company.

Interest Screen

Interest screen is only mentioned in the AAOIFI methodology and DJIM, SAC NSE are silent on it. The ratio has Interest-taking deposits in the numerator and market capitalisation in the denominator, it tells that the interest the company receives from the deposits kept in the conventional bank should also be considered and the threshold to be maintained is 30%.

NSE has taken care of this issue in the first screen, which is the Non-Permissible income screen, where it is mentioned in the numerator as Interest income along with returns from interest-based investments. So, care needs to be taken when calculating the interest received by the company from conventional banking services.

6. RECOMMENDATIONS& CONCLUSION

Some recommendations emanate from the above comparative analysis. First, although Shariah screening aims to check the company's Shariah compliance removing the cash ratio eliminates the liquidity risk of the company. The majority of the Shariah scholars have agreed on the inclusion of liquidity screens as a necessary criterion to avoid Shariah risk in the portfolio of stocks. Shariah risk is a unique risk that arises due to the inclusion of any non-compliant source (Noor et al., 2018). Finding cash and trade receivables is an easy job that is readily available on the balance sheet of a company. AAOIFI & DJIM should have a thought on it. Also, NSE has set a threshold limit of 90% for cash and receivables to total assets which should have sufficient reasoning and it needs to be made public for the investors.

Second, the ratio proposed by AAOIFI for calculating interest-taking deposits over market capitalisation is an important measure to ensure that companies do not keep high deposits in conventional banks, which facilitate banking activities and do not invest in the core business. We recommend that other institutions, including NSE, incorporate it into their Screening methodology. The institutions need to time and again review and update their screening methodologies (Malik et al., 2024)

Third, Non-permissible income has a threshold in which NSE has kept the minimum which is 3% which is commendable. As per the research,less thana 5% threshold limit is not found in any Shariah screening methodologies.Also, the nature of the business has to be fully Shariah-compliant, even for companies having multiple businesses (Khatkhatay, 2006). So we need to check for any subsidiary business in the case of a conglomerate.We recommend that there should be two levels added to this to encourage investors to invest in companies that are low on Shariah non-permissible income. Levels like (i) Encouraged criteria - For companies maintaining their Non-permissible income below 2.5% (ii) Permissible criteria - For companies maintaining their Non-permissible income above 2.5% and below 5%. This will influence the investors to invest in positive companies rather than just qualifying companies in Shariah compliance.

With this analysis, we wanted to demonstrate the comparison of the methodologies and their threshold levels in financial ratio calculations. The analysis shows that the use of different methods would result in different results as there is a difference in the threshold limit and also a missing few ratios in the calculation. Some methodologies can be applied to any stock market and some are specific to certain regions. A simple universal methodology is difficult to develop as it will include many screens and make the Shariah screening methodology difficult to implement. There can be certain ratios which can be universal but certain modifications to be done for region-specific methodology.

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