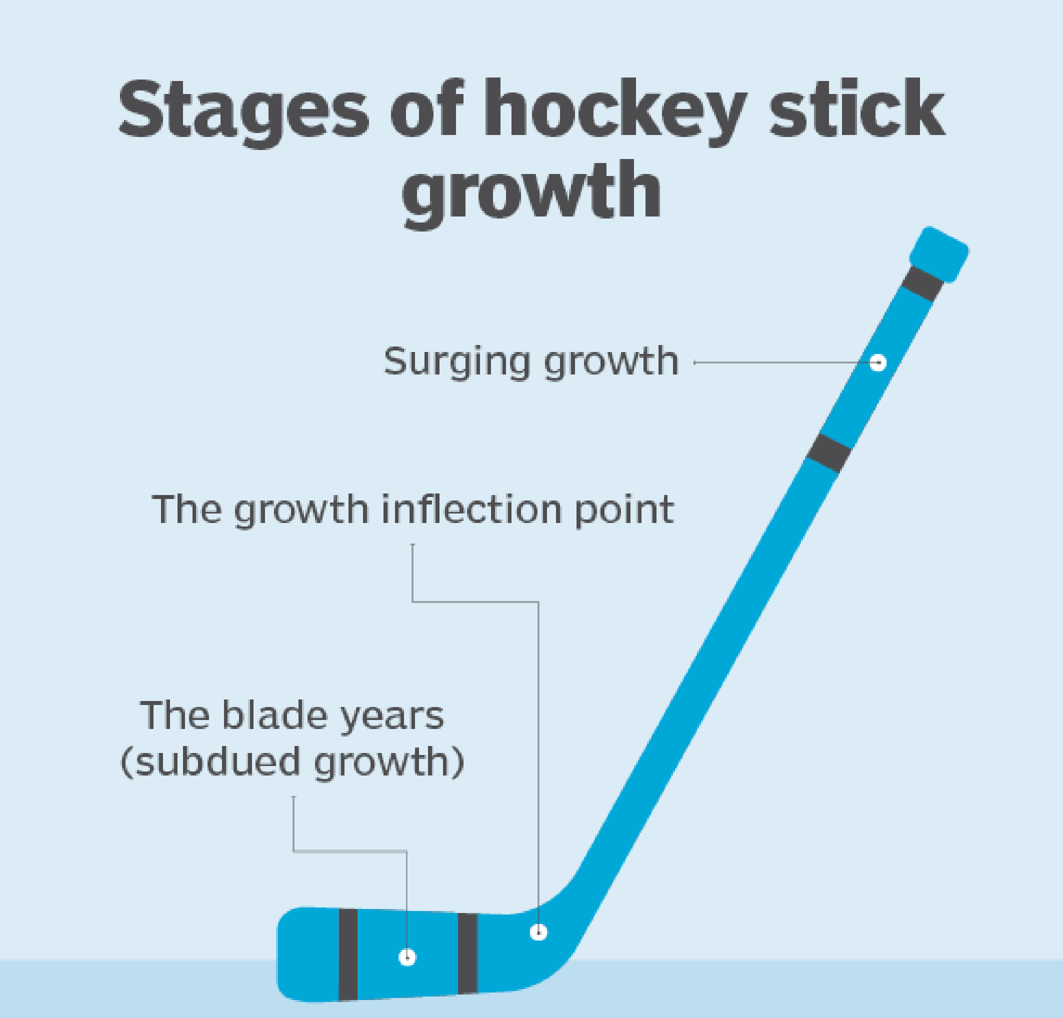
Price-to-Earnings Ratio and Hockey-Stick Effect

Source: TH

The Chairperson of **SEBI** noted that despite a high **P/E ratio**, overseas investors are attracted to the **Indian capital markets** due to the rapid **economic growth,** reflecting **global optimism** and trust in India, exemplified by the **hockey stick effect.**

- **Price-to-Earnings (P/E) Ratio:**
  - The P/E ratio is the **company's** share price relative to its **earnings per share (EPS).**
  - The P/E ratio helps assess a **company's** stock value compared to others and is also useful for comparing its valuation historically, against peers, or the market.
  - A high P/E ratio may indicate **overvaluation**, while a low ratio could suggest undervaluation.
- **Hockey Stick Effect:**
  - The **hockey stick effect** is characterised by a **sharp rise or fall** of data points after a long flat period.
  - Hockey stick charts visually depict **notable changes** or rapid growth, seen in areas like corporate earnings, **global temperatures**, and **poverty** statistics, with applications in business, economics, and policy.
    - It indicates the **need** for **urgent action** due to a drastic shift in data points.



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