INDIAN INSTITUTE OF MANAGEMENT KOZHIKODE

Case Study

IIMK/CS/94/FIN/2018/09

May 2018

Pay Up, But Don't Overpay

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Abstract

The case focus on the significance of PE ratio as a stock selection criterion. It shows that the importance of PE ratio depends of the future growth prospects of the company and how market perceives that growth. The case shows that increase or decrease of the PE ratio is not related with the stock returns. You can have very high returns from stock market in spite of decrease in PE ratio. High PE ratio may not be always denote over valued stock and low PE ratio may not be always denote undervalued stock. It depends on the future growth of the firm. You can invest in stocks with any PE ratio provided that stock is supported with growth. A low PE ratio stock is not always suitable if it is not supported by growth. In summary, Pay up but don't overpay

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