BAJAJ MUTUAL FUND

BUSINESS CYCLES IN PHARMA AND HEALTHCARE

Why medicines hospitals and diagnostics turn at different times

THE EQUITY COMPASS EDITION 28

A family may postpone a holiday, but it is less likely to postpone a necessary medicine. Yet the businesses providing healthcare can still face uneven sales, rising costs and quiet periods.

The previous edition followed the auto cycle. Here, a patient's journey connects a laboratory, hospital and pharmacy. Behind the medicine are ingredient suppliers and contract manufacturers. Each business depends on a different mix of patients, prices, factory orders and new capacity.

THE SAME FOUR PHASES WITH DIFFERENT TURNING POINTS

Expansion: Patient activity, product sales or customer orders rise.

Peak: Sales or earnings reach a high before conditions weaken.

Contraction: Lower prices, fewer orders or underused facilities pull sales or profits down.

Trough: Activity or earnings reach a low before recovery begins.

These phases can repeat while healthcare spending grows over the longer term. They are often clearer within a business or market than across the entire sector. A new medicine also has its own product cycle, which need not turn the whole industry.

WHAT THE INDIAN DATA SHOW

BUSINESS AND PERIOD	REPORTED EVIDENCE	SALES OR REVENUE GROWTH
Domestic medicines October 2026	Sales value up 12.23%; units up 1.58%	Expansion
US generics April to June 2026	Sample revenue down 5.8%	Revenue contraction
Ingredients and contract work April to June 2026	API sample revenue up 12.9%; contract research and manufacturing up 33.4%	Recovery and expansion
Hospitals FY2026	Sample revenue up 18%; bed occupancy at 63.5%	Expansion
Diagnostics FY2026	Organised companies in the review reported revenue growth of 15% or more	Expansion

These figures show growth or decline over a particular period. They do not, on their own, establish where a business is in its cycle.
Growth is against a year earlier. These are different market audits and company samples, not one comparable sector series.
Pharma review: 18 companies overall, including 15 for US generics. Hospital review: 11 listed companies. FY2026 means April 2025 to March 2026.

HOSPITALS AND THE COST OF ADDING BEDS

A new hospital hires doctors, nurses and support staff before all its beds are occupied. Early losses can therefore reflect the cost of opening a facility, even when the wider hospital business is expanding.

Expansion: More admissions fill existing beds and support new facilities.

Peak: Sales or profits reach a high before admissions or revenue per patient weaken.

Contraction: Fewer admissions or rising costs reduce earnings while staffing and building costs continue.

Trough: Patient activity and earnings reach a low before admissions recover.

India today: The hospital sample's FY2026 revenue growth of 18% and occupancy of 63.5% point to expansion. Revenue per occupied bed per day rose 9.2%. New beds still need patients, so a growing network and a mature hospital can be at different stages.

DIAGNOSTICS FOLLOWS PATIENTS AND THE LABORATORY NETWORK

Routine monitoring and preventive checks can bring repeat business. A temporary outbreak may lift testing sharply, but that extra work may fade before the costs of an expanded network do.

Expansion: More patients and tests spread costs across a busier laboratory network.

Peak: Testing revenue or earnings reach a high before an unusual surge fades or competition intensifies.

Contraction: Test demand falls or discounts reduce earnings.

Trough: Activity settles at a low before routine testing and repeat visits rebuild growth.

India today: Organised diagnostic companies in the FY2026 review reported revenue growth of 15% or more, supporting an expansion reading. More collection centres improve reach, but new centres need enough tests to cover their costs. Network expansion alone does not prove profits are improving.

DOMESTIC MEDICINES HAVE A STEADIER PRESCRIPTION BASE

Repeat prescriptions support medicines for continuing illnesses. Seasonal treatments and new launches can move faster, creating smaller cycles within the domestic market.

Expansion: Wider treatment access and new medicines lift sales.

Peak: Sales or earnings reach a high before competition or slower orders take effect.

Contraction: Lower prices or pharmacy stock adjustments weaken sales or profits.

Trough: Orders stabilise before fresh prescriptions and launches lift activity again.

India today: October 2026 sales value grew 12.23%, while units rose 1.58%. Cancer medicines grew 18.7% in value and 8.1% in units. This supports Edition 26's domestic expansion reading, while showing that higher sales value and more medicines sold are different measures.

EXPORT MEDICINES TURN WITH LAUNCHES AND COMPETITION

A patent expiry can let Indian companies launch generic versions of a medicine. Early entrants may earn well before more suppliers bring prices down.

Expansion: Approvals and launches open new sales opportunities.
Peak: A product reaches its strongest sales or earnings.
Contraction: More rivals lower prices and older launches earn less.
Trough: The decline settles before new launches or fewer competitors restart growth.

India today: The reported sample's US revenue fell 5.8% in April to June 2026, while Europe grew 25.4%. Lower generic Revlimid revenue was a key US drag. A weak product cycle can therefore coexist with growth in another market.

INGREDIENT SUPPLIERS AND CONTRACT MANUFACTURERS FOLLOW ORDERS

Active pharmaceutical ingredients, or APIs, make medicines work. Contract development and manufacturing organisations, or CDMOs, develop or produce medicines for other companies. Both rely on customer orders, although contract projects can take years to reach full production.

Expansion: Customers order more ingredients or award and scale up projects.
Peak: Large orders or major projects take sales to a high.
Contraction: Customers use existing stock, cut orders or delay projects.
Trough: Orders reach a low before restocking or new programmes restart growth.

India today: API sample revenue rose 12.9% and contract research and manufacturing revenue rose 33.4% in April to June 2026. These suggest recovery and expansion. Repeat orders and progress from development to production will show whether the improvement lasts.

DO ALL HEALTHCARE BUSINESSES MOVE TOGETHER?

Healthcare businesses may move through the phases at different times or in a different order. A hospital, for instance, may see more patient admissions while a medicine manufacturer faces lower prices or fewer orders. Not every business will experience each phase in the same way.

WHAT THIS MEANS FOR MUTUAL FUNDS

- A healthcare-focused mutual fund may invest across medicines, hospitals, diagnostics and manufacturing.
- These businesses respond differently to patient demand, competition, pricing and customer orders.
- Growth or weakness in one part of healthcare may not be reflected across the fund's other holdings.
- Investors can look at the fund's portfolio and investment objective to understand its exposure, rather than assuming all healthcare businesses move through the same cycle together.

Sources: Pharmarack, ICRA, EY, Internal Analysis

Healthcare is needed every day. Its business cycles turn with how that care is delivered, paid for and supplied.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.