



April 2021

Final Report

redseer

Bangalore. Delhi. Mumbai. Dubai. Singapore. New York

Nepal | eCommerce Market Narrative

Prepared for:
 **dolma**
impactfund

Glossary of terms

| General | |
|-------------|---|
| GDP | Gross Domestic Product |
| FMCG | Fast Moving Consumer Goods |
| SKU | Stock-Keeping Unit |
| CAGR | Compound Annual Growth Rate |
| AOV | Average Order Value |
| GMV | Checkout value of goods ordered on e-Commerce platforms |
| NMV | Net Merchandise Value = $GMV - (Cancellations + Returns)$ |
| PFCE | Private Final Consumption Expenditure |
| COD | Cash on Delivery |
| BPC | Beauty & Personal Care |
| B2B | Business to Business - Retail Model |
| B2C | Business to Consumer - Marketplace Model |
| FY | Financial year ending July 15 is the period under consideration |

Executive Summary (1/2)

Macro & Overall Retail Overview



1. Nepal has been among the fastest growing economies in South Asia and has managed to achieve 0.2% GDP growth in 2020 while most other economies witnessed contraction
2. Retail sales amounted to USD 7.5 Bn in FY21 - *groceries accounts for 70%*
3. Bagmati Province backed by high population concentration and GDP per capita contributes 28% to retail sales, while accounting for only 21% of population
4. The retail market is largely unorganized with traditional mom & pop stores accounting for 80%+ of retail sales

Online Retail Market



1. Currently out of the 13 Mn people (*45% penetration*) who have access to internet, only 9% shop online, thus providing massive headroom for growth in eCommerce
2. E-tailing SAM in FY 21 is estimated to be USD 100 Mn; It has witnessed more than 10X growth in the last 5 years
3. COVID-19 resulted in a flattish 2020 for online retail as non-essential products were delisted for few months - *Market leader Daraz lost share while Sastodeal managed to see strong growth*
4. Marketplace model dominates currently; however, we do see a strong push towards B2B model among the top two players – Daraz and Sastodeal
5. Electronics dominates the category mix while FMCG witnessed noteworthy gains in FY 2021
6. Higher internet penetration and population concentration makes Kathmandu valley the biggest demand centre for e-tailing - *massive untapped market beyond Kathmandu as well*
7. Early investments into in-house capabilities have resulted in ~50% shipments being fulfilled by in-house logistics – *delivery speeds in Nepal are faster than some more evolved markets*
8. Nepal's E-tailing market is cash heavy, however the pandemic has driven up adoption of digital payments which now contribute ~32% to payment mix
9. The E-tailing market is underpenetrated offering immense room for growth – *we expect electronics & Fashion to be the categories driving growth in the short to medium term*
10. Nepal eCom market has relatively better unit economics for its stage of evolution - *good commissions/margins + low supply chain costs are the key drivers of this*

Executive Summary (2/2)

Future Outlook



1. The customer digital funnel in Nepal is expected to grow immensely backed by robust growth in internet penetration and the National eCommerce Policy is expected to create a strong framework for online retail to flourish
2. The market is forecasted to grow to USD 1 Bn in the next 5 years backed by 2.6 Mn addition to annual shopper base and growth in spending
3. Fashion, Electronics and FMCG will be key drivers for GMV until FY26 with room for growth in other long tail categories; from being electronics heavy in FY21, E-tailing will become more evenly distributed by FY26 as supply and demand eco-system matures
4. Regions beyond Kathmandu are expected to contribute 65% of GMV mix by FY26
5. In-house logistics will steadily increase – however 3PL services will continue to be used for suburban areas with lesser demand density
6. Share of COD payment would decrease as customers become more digitally mature - however onboarding new users from outside Kathmandu would offset some of this
7. As the market will mature and monetisation avenues grow, platforms will witness improvement in contribution margins

Sastodeal Positioning



1. Sastodeal has been the growth engine for the eCommerce market in Nepal during COVID-19; they were quick to gear up at the beginning of it to deliver essentials to consumers
2. The highlight this year was the partnership with Flipkart which opened a lot of avenues giving it a distinctive competitive advantage
3. Sastodeal boasts of a strong network of enablers helping to provide a seamless experience to the end consumer also aided by its higher B2B focus and share of captive logistics when compared to Daraz
4. Sastodeal is well poised to expand out of Kathmandu valley to drive the next wave of customer adoption and growth with robust logistics capabilities being built
5. The company is looking to diversify its monetization model by identifying new ways to add value to customers and sellers alike
6. Powered by a localised team - which is a key differentiator vs Daraz

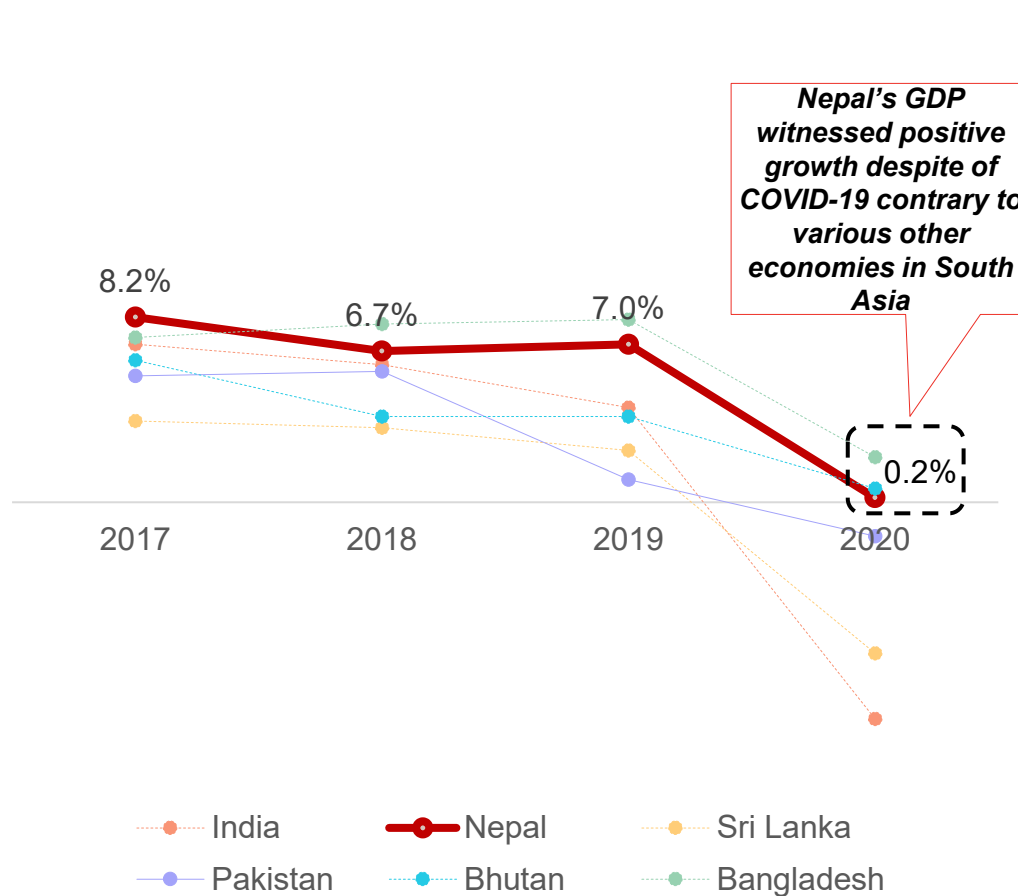
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Macro Overview – *Relatively Small, but fastest growing economy in South Asia*

Nepal economy has seen one of the highest historical growth among South Asian nations; 2020 has been flattish at 0.2%

Nepal GDP growth 2017-2020, %



GDP Growth Drivers

1



Growth in public infrastructure spending coupled with **strong private consumption** owing to robust growth of remittance

2



Steady growth in construction sector backed by acceleration in post-earthquake reconstruction activities and new hydropower projects

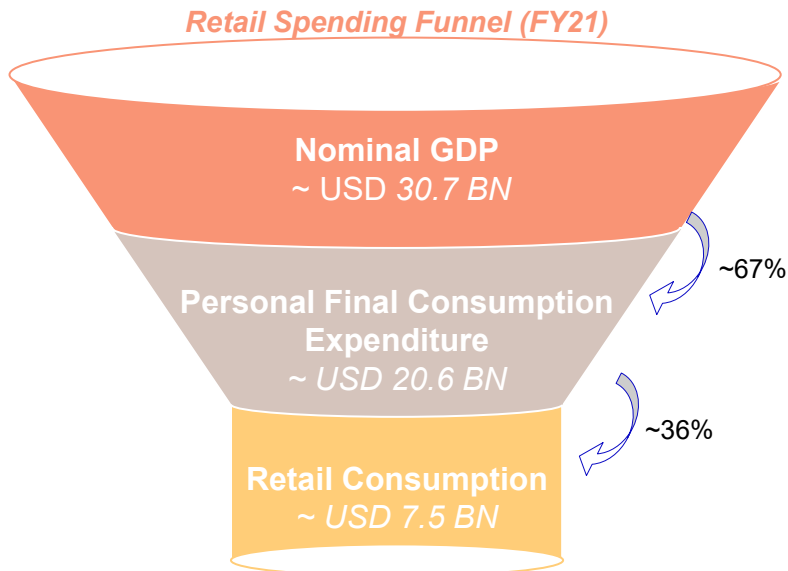
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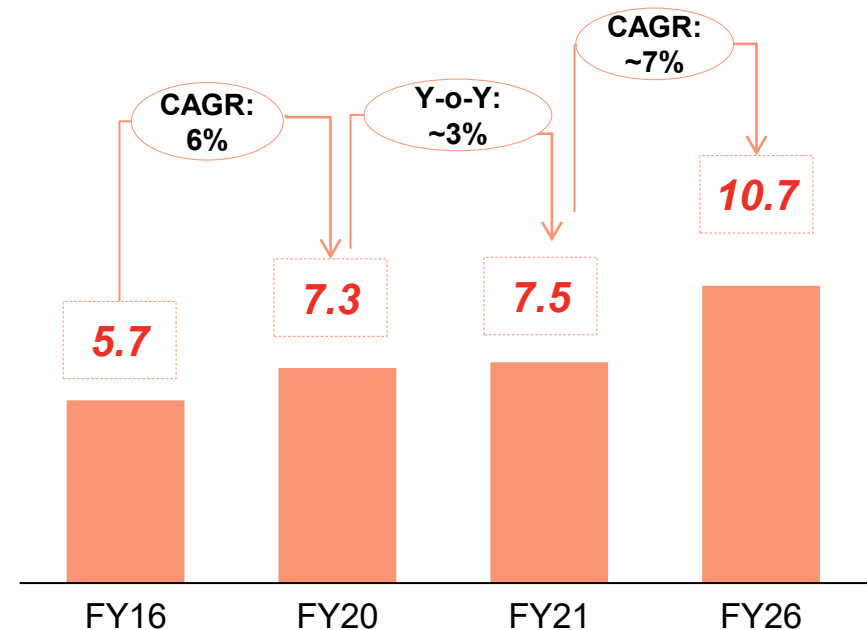
The ongoing mechanization of agriculture and good monsoon to boost paddy production and growth of overall agriculture sector

Retail sales expected to reach USD 7.5 Bn in FY21, and further grow at a steady 7%+ CAGR to reach USD 10.7 Bn by FY26E

Nepal Retail Spend Funnel



Nepal Retail Growth



Growth Drivers

1

Strong growth in private consumption

Retail market in Nepal has been growing on the back of steady growth in private consumption. Private consumption in Nepal witnessed an increase even during the pandemic

2

Robust growth in GNI

Remittances form a big chunk of Nepal's GDP (~27% in CY19). Remittance received witnessed 10% CAGR in the past decade thus resulting in robust growth in GNI per capita

3

Adoption of online retail

Nepal has witnessed 100%+ growth in online retail in recent years – Online retail has increased product access coupled with discounts for end consumer further driving consumption

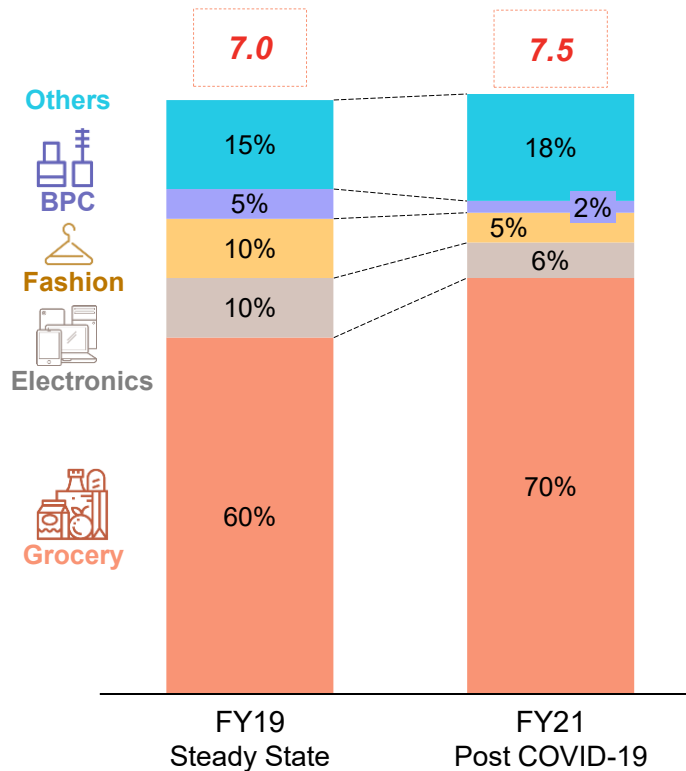
Groceries contribution is high at 70% of retail sales currently

A normal year would see a relatively lower contribution of Grocery ~60%

Nepal Retail Market Segmentation by Categories

FY19 & FY21, USD Bn

Share of retail market >>



Note: Fashion: Includes apparel, footwear, accessories & handbag
 Grocery: Includes fresh fruits, vegetables, packaged food & non-food FMCG such as home essentials
 Electronics: Includes home appliances, kitchen appliances, cell phones, laptops & IT peripherals and accessories
 BPC: Includes cosmetics, skin-care, hair-care etc.
 Others: Includes home & décor, books, sports & outdoor etc

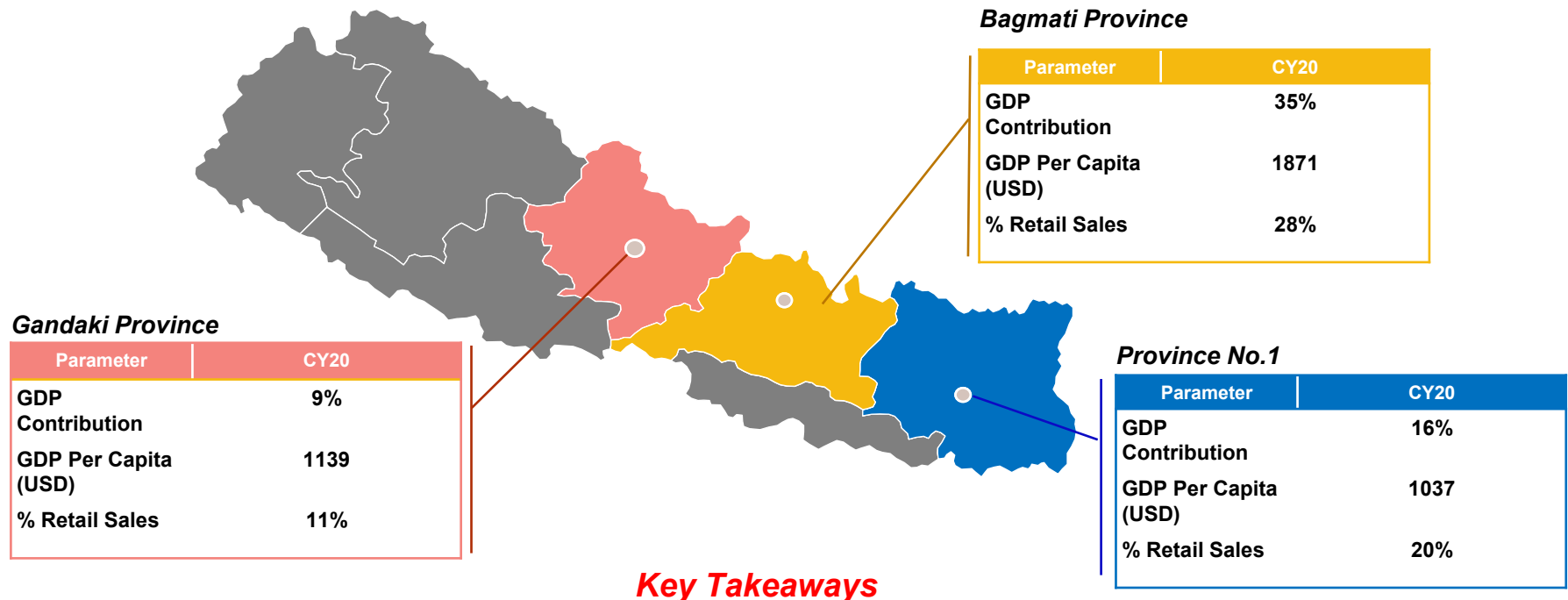
Source(s): Estimates from primary interactions and Redseer analysis

Key Takeaways

- **Retail sales in Nepal are dominated by grocery segment with a contribution of ~70%** - Share of groceries in retail mix witnessed growth in the wake of COVID-19 pandemic as spend on essentials increased
- **Non-essential spend reduced in Nepal** as people were confined to their homes as a result of lockdowns and therefore share of fashion, BPC reduced slightly in the retail mix
- **Electronics sales saw a mixed trend** during COVID-19 as people spent more on mobile phones and laptop owing to increased digital engagement driven by online classes, WFH etc, while other segments witnessed low demand

High population concentration and spend makes Bagmati province the biggest contributor to retail sales

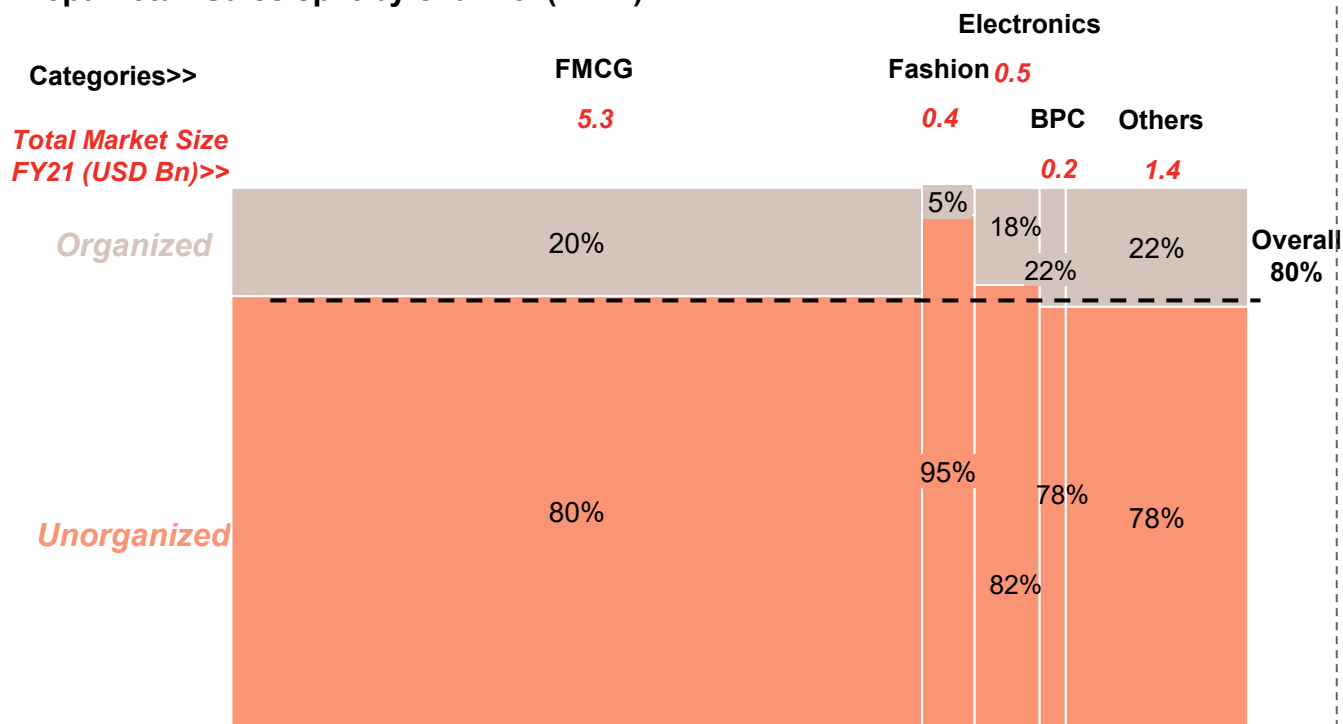
Nepal Retail Market Segmentation by Regions



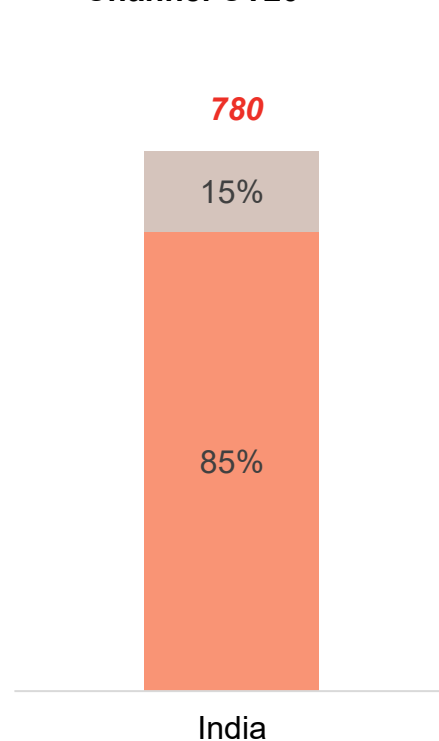
- Bagmati province which is home to Kathmandu Valley (*Capital region*) contributes maximum to country's GDP and also has the highest GDP per capita followed by Gandaki and Province 1
- High spend coupled with high concentration of population (*21% of Nepal's population*) makes it the biggest contributor to retail sales. Bagmati province accounts for almost 28% of overall retail sales in Nepal
- Following Bagmati are Province 1 and Gandaki contributing 20% and 11% to the retail sales respectively

The retail market is largely unorganised with traditional mom & pop stores accounting for 80% of retail sales – need for efficient digitally enabled models in retail is strong

Nepal retail Sales split by channel (FY21)



India Retail sales by Channel CY20



Key Takeaways

- **Nepal's retail sector is dominated by traditional/unorganized retail** with a contribution of 80% towards overall sales.
- Traditional channels account for a whopping 95% towards Fashion sales, while BPC is the most organised with share of organised sales at 22%



2

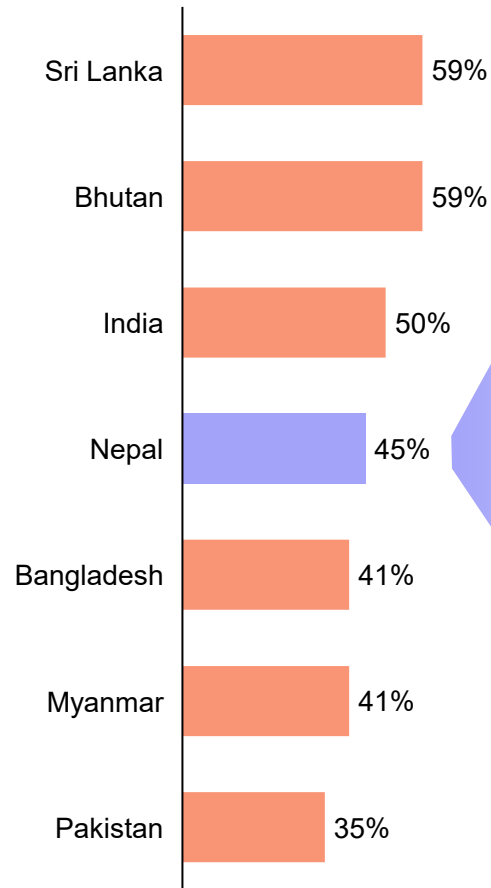
Online Retail – *In a period of hypergrowth*

The digital usage funnel in Nepal has massive room to expand with only 9% of internet users currently shopping online

COVID-19 has acted as a catalyst for online adoption

Internet Penetration (FY21)

% of total population



Nepal online consumer channel (FY 21)

Mn of population

Access to Internet

Total population with access to internet

13.0

Active Internet Users

Uses social media, google, but doesn't transact online

7.0

Online Services Users

Transacts for services e.g. banking/recharge

3.0

Online Shoppers

At least one transaction on online retail platforms in a year

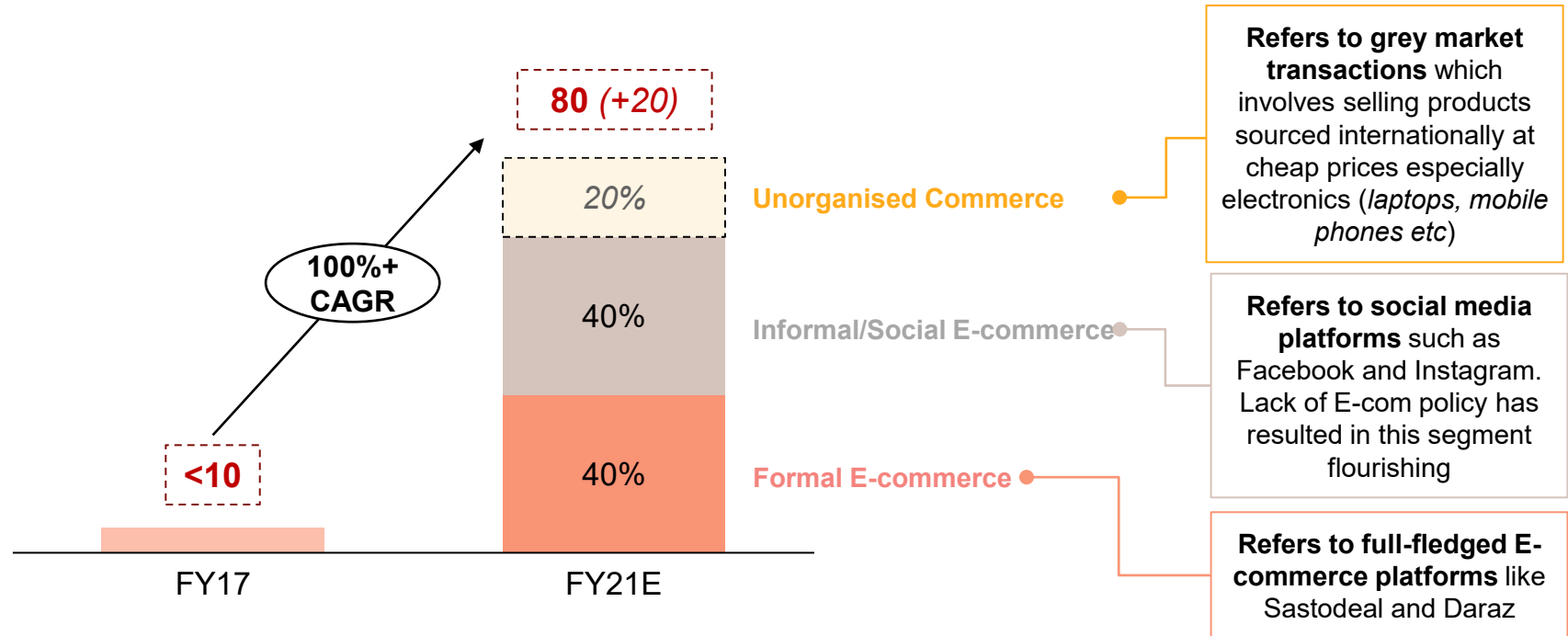
1.2

Total Population (Mn)

~29.1

Nepal online retail SAM is currently USD 100 Mn, despite a flattish year of growth

Online retail GMV in Nepal USD Mn, Physical Goods



Key Growth Drivers

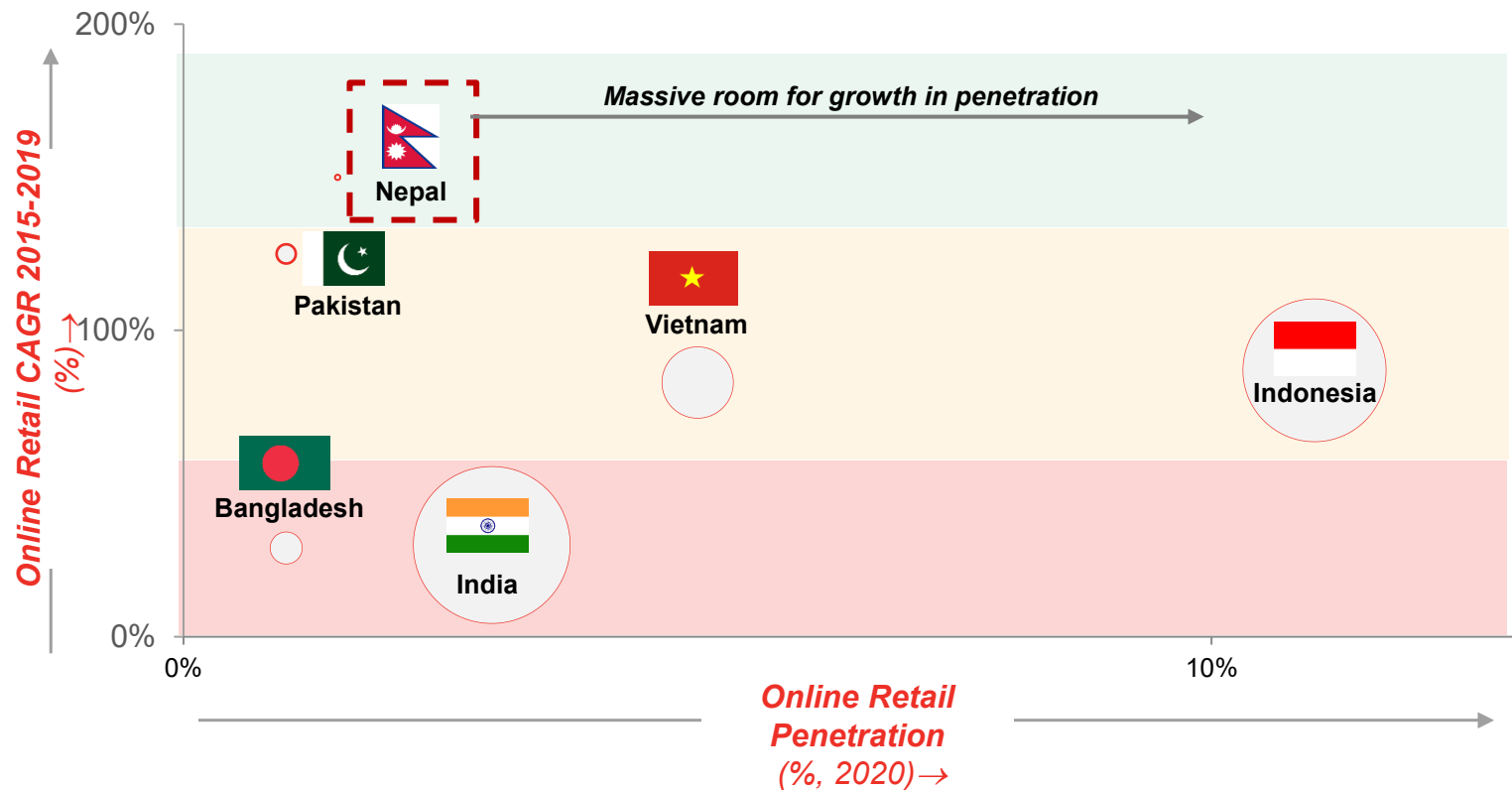
- Growth in E-commerce market can be attributed to **rise in internet penetration from 34% in FY17 to 45% in FY21** which resulted in **addition of almost 400,000 new online shoppers**
- **Widening of assortment and onboarding of new brands** have also contributed to the growth in E-commerce

Source(s): Estimates from primary interactions and Redseer analysis

The market is nascent compared to peers and looks poised for exponential growth over the short to medium term

E-tailing CAGR vs Penetration

USD Mn, Physical Goods



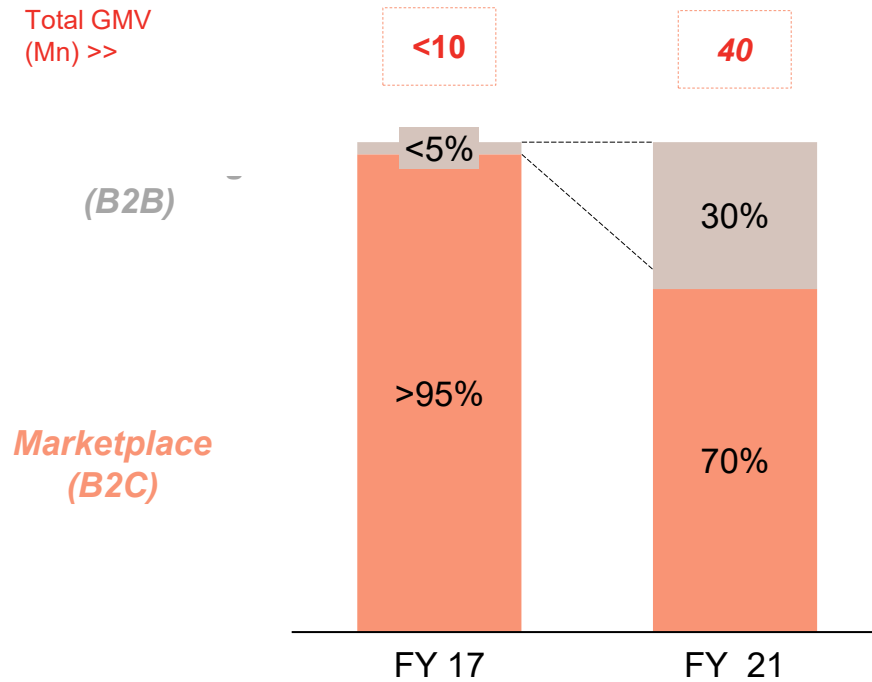
Note: 1. CAGR has been considered from CY15-19 since numbers for CY20 for some of the above markets are not available
2. The circle represent the size of the e-tailing market

Source(s): Estimates from primary interactions and Redseer analysis

Marketplace model dominates the mix currently which is typical of a nascent e-tailing market - however we do see a strong push towards B2B model among the top two players, Daraz and Sastodeal

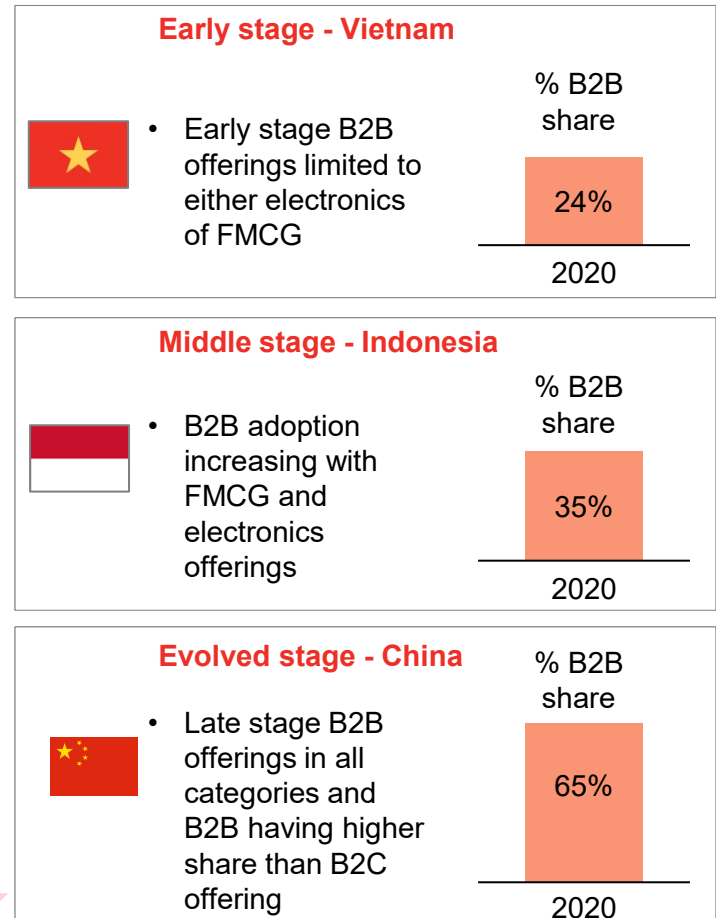
E-tailing GMV in Nepal by Operating Model

USD Mn, Physical Goods



Top players in Nepal are focussing on maintaining a healthy balance between B2C and B2B models as the former drives volume while the latter drives profitability

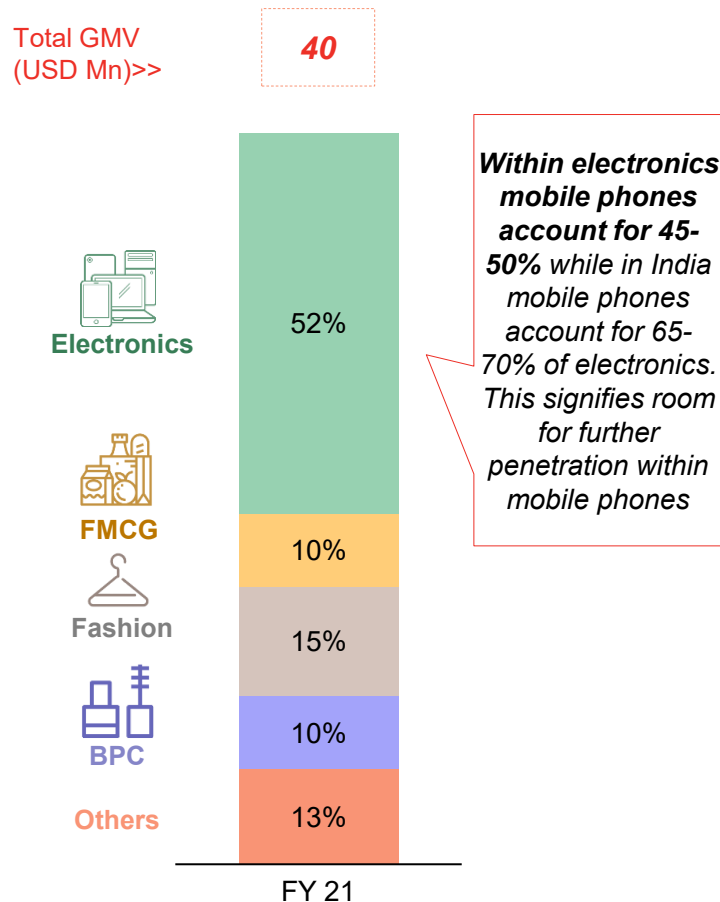
Business model evolution in e-tailing



Electronics dominates the category mix while FMCG has gained massively last year – this has created a strong comfort with online channels among consumers, auguring well for sustained growth

Formal E-tailing GMV in Nepal by Categories

USD Mn, Physical Goods



Key Takeaways

- **Leaders: FMCG & Others** - The onset of pandemic resulted in people shifting to online platforms for their grocery needs. However the increase in FMCG share was not as steep as witnessed in some other markets owing to nascent stage of the market
- **Neutral: Electronics** - Share of electronics remained same in CY20 owing to government mandate which did not allow eCommerce platforms to sell non-essential categories during lockdown. However, as lockdowns were lifted demand of electronics witnessed uptick due to people buying more phones and laptop for online classes, WFH needs
- **Laggards: Fashion & BPC** - Since sale of non-essentials was banned for almost 3 months, fashion and BPC witnessed dip in their share. Post lockdowns customers bought more of unbranded fashion products at relatively low AOV reducing the contribution of fashion in the overall mix

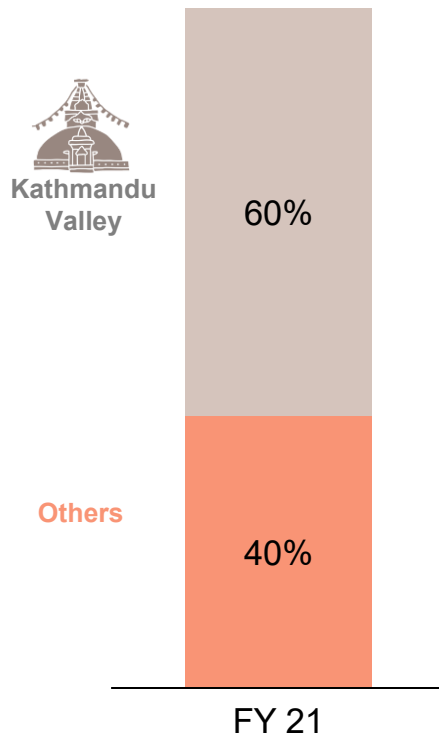
Higher internet penetration and population concentration makes Kathmandu valley the biggest demand centre for e-tailing currently...

Formal E-tailing GMV in Nepal split by Region

USD Mn, Physical Goods

Total GMV
(USD Mn) >>

40



| Parameter | Online Shopper Penetration ¹ |
|------------------|---|
| Within Kathmandu | 22% |
| Beyond Kathmandu | 5% |

Key Takeaways

- The demand concentration on Kathmandu Valley can be attributed to higher internet penetration (~83%) as opposed to other regions
- Online shopper penetration in Nepal stands at 9%.** In Kathmandu Valley owing to higher digital maturity among masses the online shopper penetration stands at 22% while in regions beyond it's close to 5%
- When compared with relatively more evolved markets like **Indonesia and Vietnam where online shopper penetration stands at 50% and 36% respectively, we see massive room for penetration growth in Nepal**

Note: 1: Online shoppers as % of people with access to internet

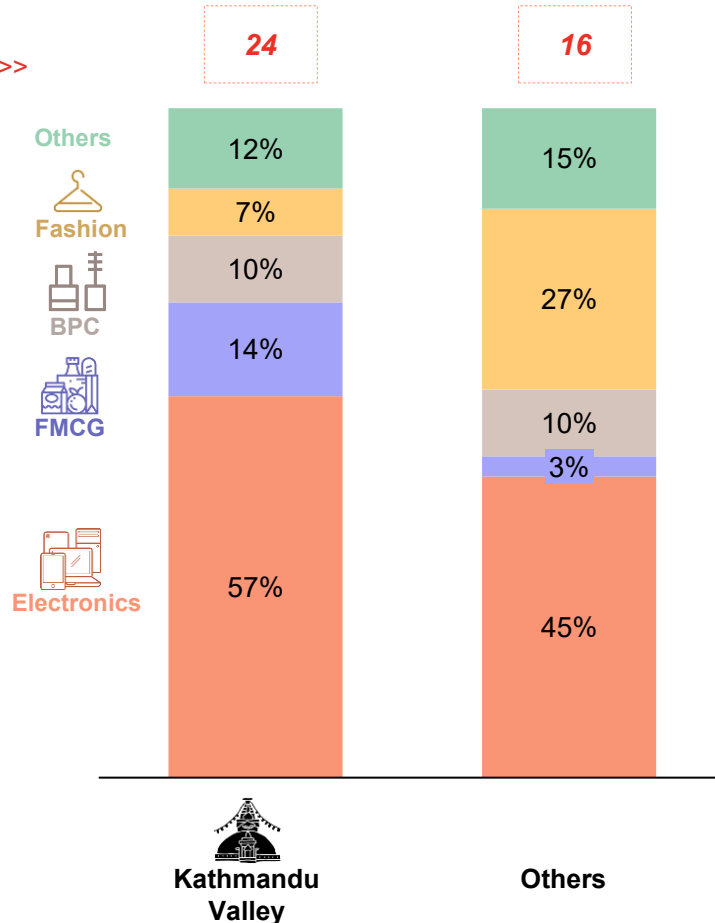
Source(s): Estimates from primary interactions and Redseer analysis

...while immense potential lies outside of Kathmandu valley - where currently the product mix is skewed towards low value Fashion and electronics accessories

Nepal Formal E-tailing GMV split by region x category

USD Mn, % of GMV, FY21

Total GMV
(USD Mn) >>



Key Takeaways

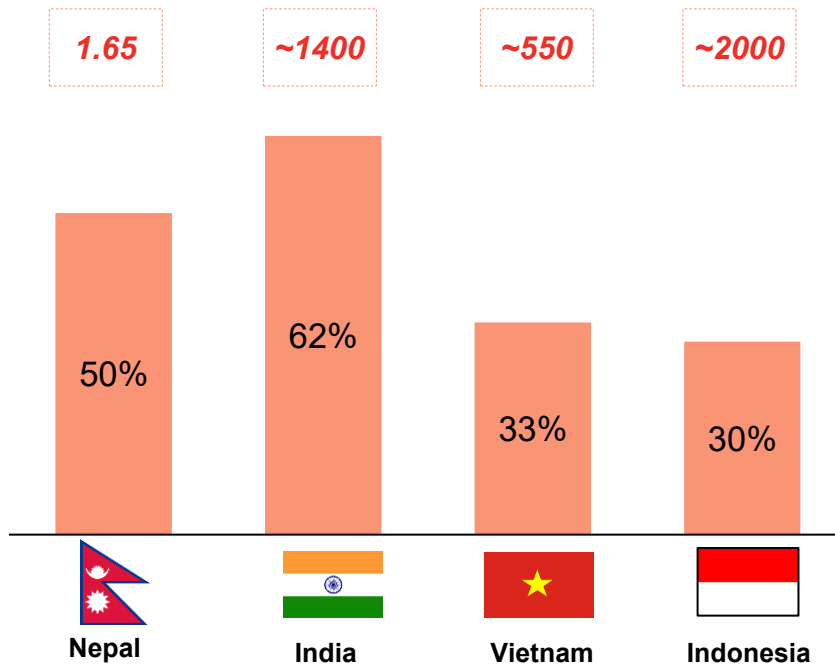
- **High value electronics especially mobile phones & laptops weigh higher within category mix in Kathmandu Valley**, while in other regions low value fashion and electronics accessories account for major share
- **There is significant headroom for premiumisation within fashion and electronics categories in regions beyond Kathmandu Valley**
- **FMCG is highly concentrated in Kathmandu Valley thus pointing towards the relatively lower digital maturity of consumers in other regions**

In-house logistics share in Nepal is higher than more mature markets - *this coupled with faster delivery speeds can drive a strong experience among new users, helping bring the next wave of customers online*

Formal E-tailing shipments fulfilled by captive logistics

Mn, Physical Goods, FY 21 for Nepal, CY20 for other markets

Total Shipments (Mn) >>



Key Takeaways

- **E-tail platforms in Nepal understand that having control over logistics will help them in ensuring faster deliveries and higher customer satisfaction.** As a result they have warehouses and other logistics capabilities in Kathmandu
- Top players are aggressively investing in expanding the reach of in-house logistics. **Both Sastodeal and Daraz have delivery hubs in 1 out of 14 provinces in Nepal with plans to achieve 100% coverage by 2021 end**
- In terms of average time taken for delivery in Tier II/III cities **Nepal is better than many other eCommerce markets with average time of 2-3 days**

Average Delivery Time (Tier II/III cities)

2-3 days

~4 days

4-5 days

4-5 days

The market is cash heavy, however the pandemic has driven up adoption of digital payments which now contributes 32% to payment mix

Formal E-tailing transactions by payment mode

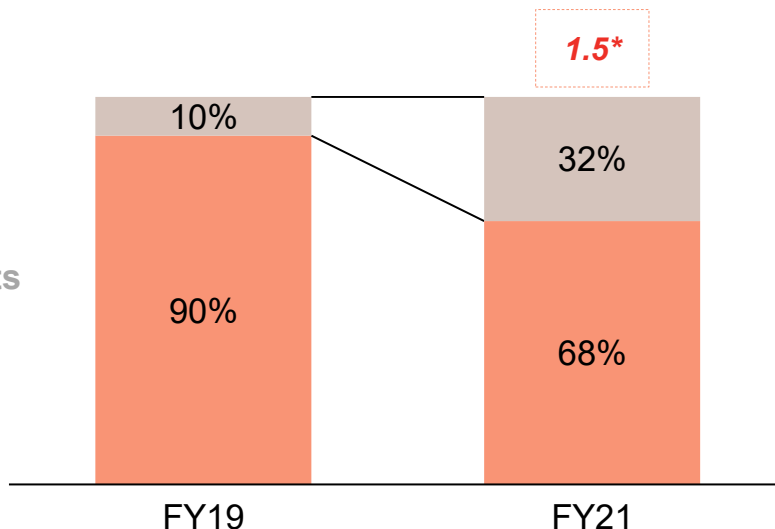
Mn

Total Transactions (Mn) >>

Digital Payments



COD



The rise in digital payments can be attributed to:

- Demand Side:** People avoiding cash transactions to minimize risk of virus spread
- Supply Side:** eCommerce players are partnering with e-wallets to provide faster and easier payment options

sastodeal.com
Be Genuine.



Key Takeaways

- Nepal's E-tailing has traditionally been cash heavy** with the share of COD as high as 90% in FY19
- Later part of FY19 witnessed top platforms partnering with banks and leading digital wallets –
 - Sastodeal has partnered with IMEpay**
 - Another such partnership was between **Daraz** and one of the leading e-wallets **eSewa**
- In more evolved e-wallet markets like India, we see COD contributing 66% to the overall transaction volume** thus pointing towards faster adoption of digital payment in Nepal

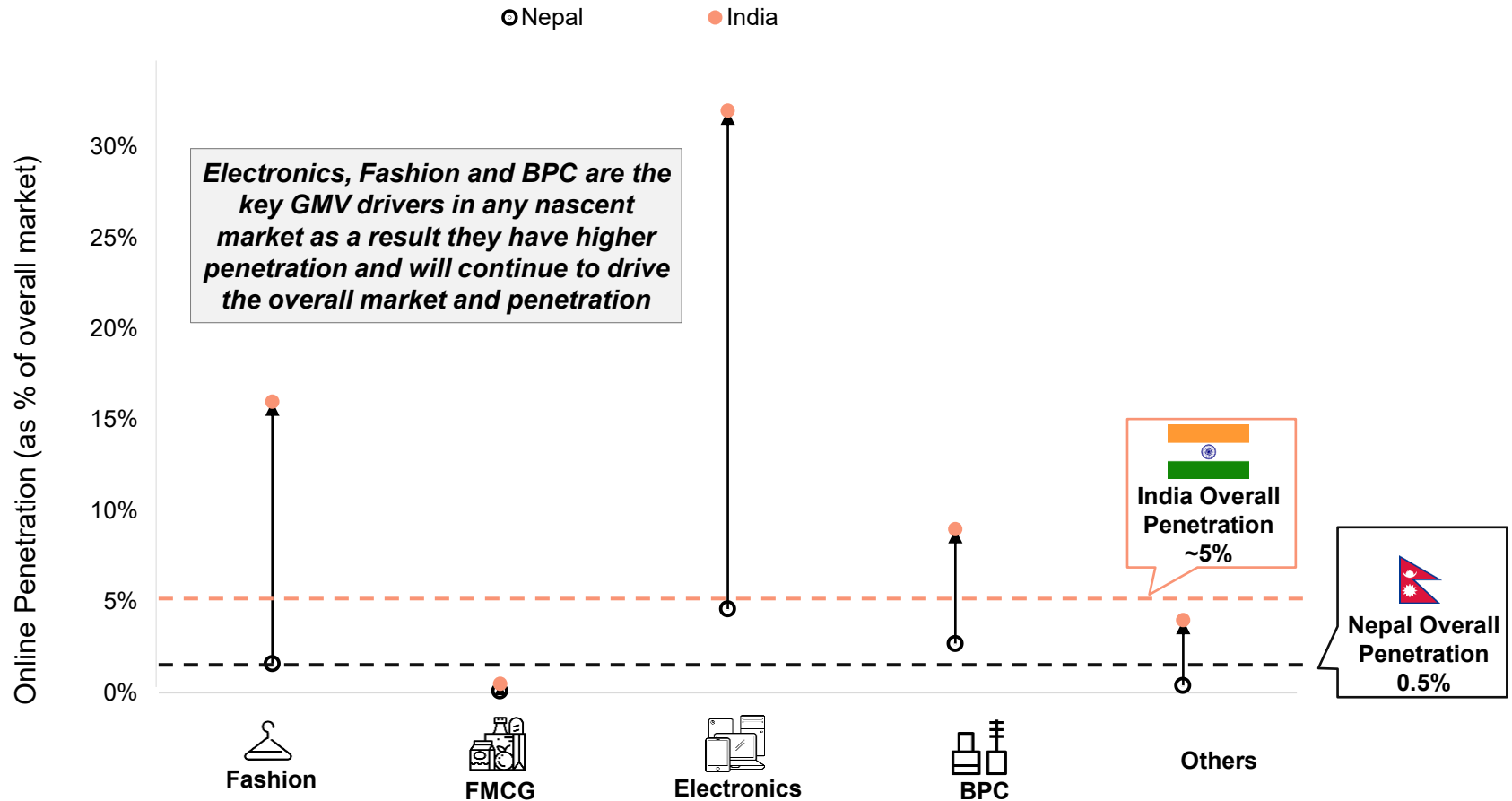
*Note: This is the # of transactions which is lower than the total number of shipments as one transaction may get split into multiple shipments

Source(s): Estimates from primary interactions and Redseer analysis

Electronics, Fashion and BPC - the growth drivers of e-tailing in initial stages still have immense room for growth in Nepal – this coupled with increase in online FMCG adoption is expected to drive solid growth for the market

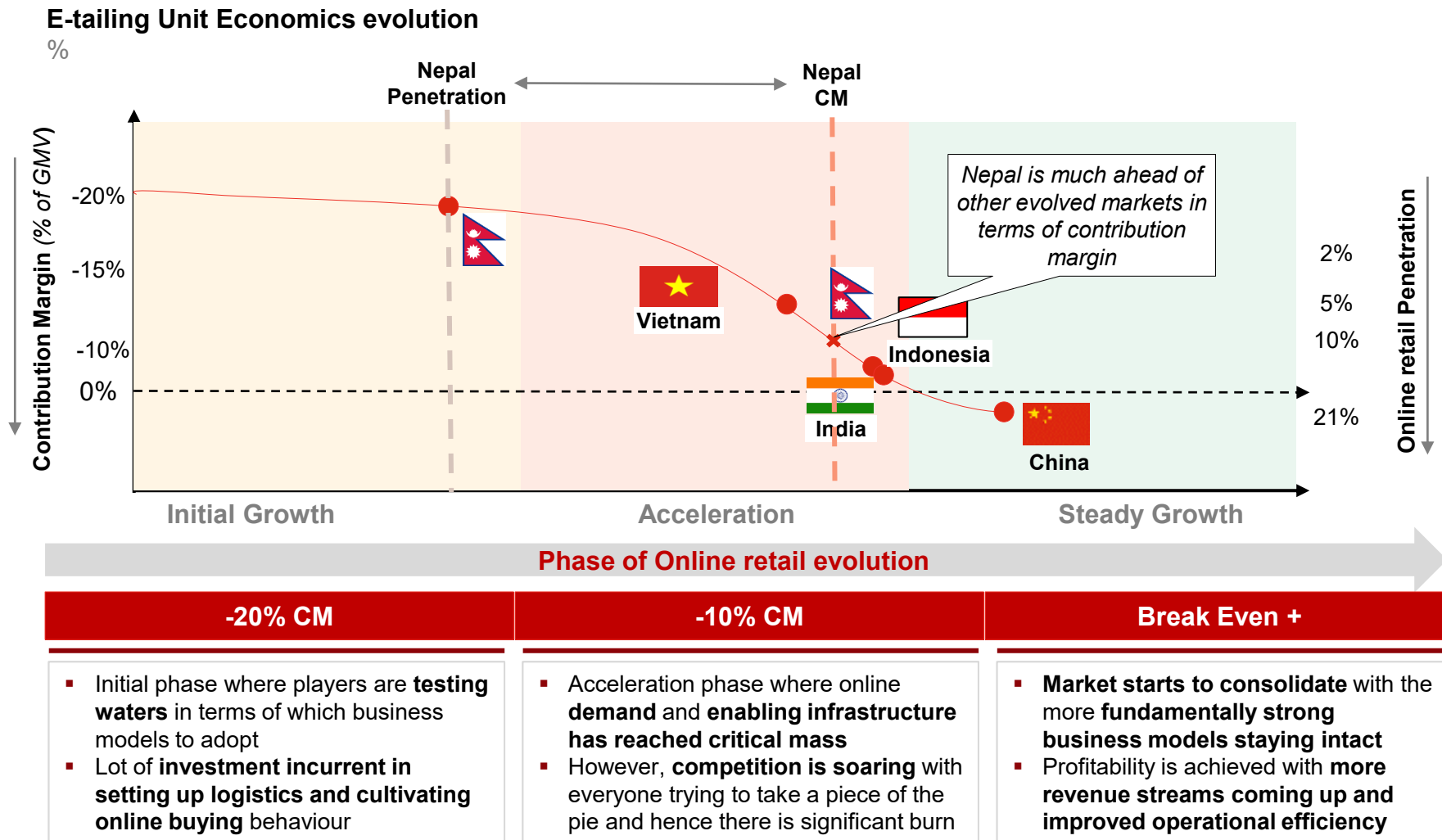
Formal E-tailing penetration by categories

%, FY21 for Nepal, CY20 for India



Source(s): Estimates from primary interactions and Redseer analysis

Despite being a relatively nascent market from a penetration standpoint typically warranting high cash burn, Nepal looks ahead of its time when considering Contribution Margin levels...



Source(s): Estimates from primary interactions and Redseer analysis

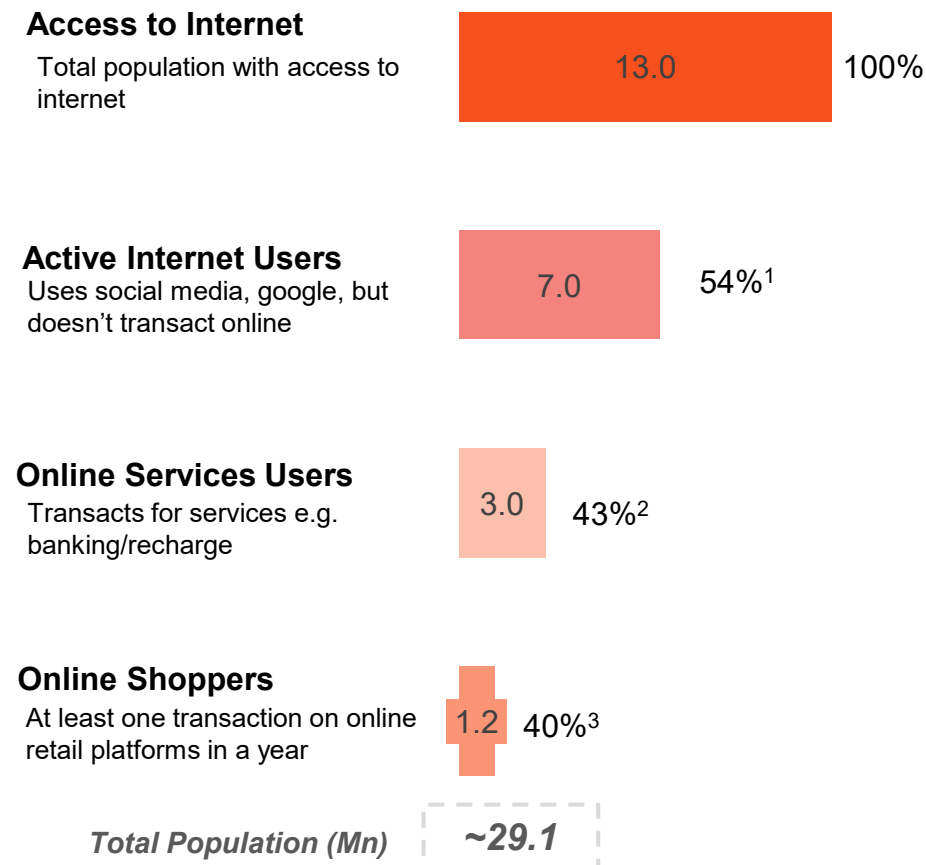


Future Outlook

The customer funnel in Nepal is expected to grow immensely backed by robust growth in internet penetration...

Nepal online consumer channel (FY21)

Mn of population



Nepal online consumer channel (FY26)

Mn of population



Note: 1. Active Internet Users/Access to internet; 2. Online Service Users/Active Internet Users; 3. Online Shoppers/Online Service Users

Source(s): Statista, Estimates from primary interactions and Redseer analysis

...and the National eCommerce Policy is expected to create a strong framework for online retail to flourish

Sastodeal is helping the government every step of the way to come up with a robust policy that would shape the eCommerce landscape of Nepal

The bill aims at achieving the following:

Lay down a framework for the eCommerce Sector to regulate it



Build a robust infrastructure to strengthen data security and support electronic payments

Develop Logistics to facilitate trade and help players grow outside Nepal



Encourage and protect local craftsmen and incentivize them to sell

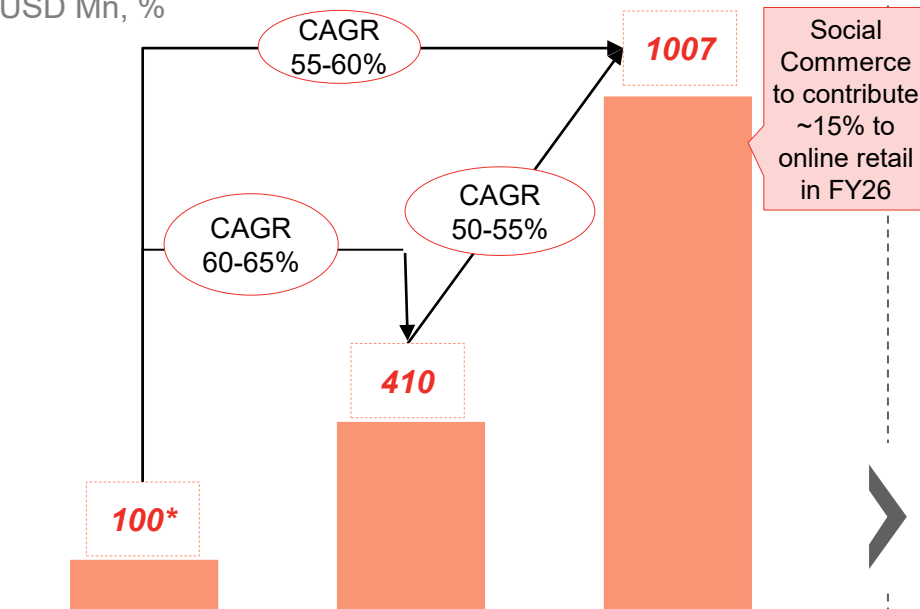
How will this policy benefit eCommerce Players?

- This will help build consumer trust to shop and pay online by means of the regulations
- It will help regulate the Grey market of Nepal i.e. goods being sold on Social Media Platforms
- Initiate awareness programs and campaigns for both buyers and sellers

The market is forecasted to grow to USD 1 Bn in the next 5 years backed by 2.6 Mn addition to annual shopper base and growth in spending

Nepal E-tailing Market GMV evolution

USD Mn, %



FY21

FY24

FY26

FY21

FY26

| | | |
|---------------------------------------|------------|------------|
| Total # of Online Shoppers | 1.2 | 3.8 |
| Frequency of purchase per year | ~4 | ~10 |
| AOV | ~15 | ~25 |

Key Growth Drivers



Aggressive growth in consumer spending in line with economic growth



Customer retention/stickiness for FMCG category in post COVID-19 scenario



Brands continuing to push online sales through campaigns, exclusive launches etc



Favorable E-commerce policy which instills more trust among consumers and aids players in scaling their operations



Regulating the unorganised eCommerce Market which is not easy to track and accounts for a high share of eCommerce market

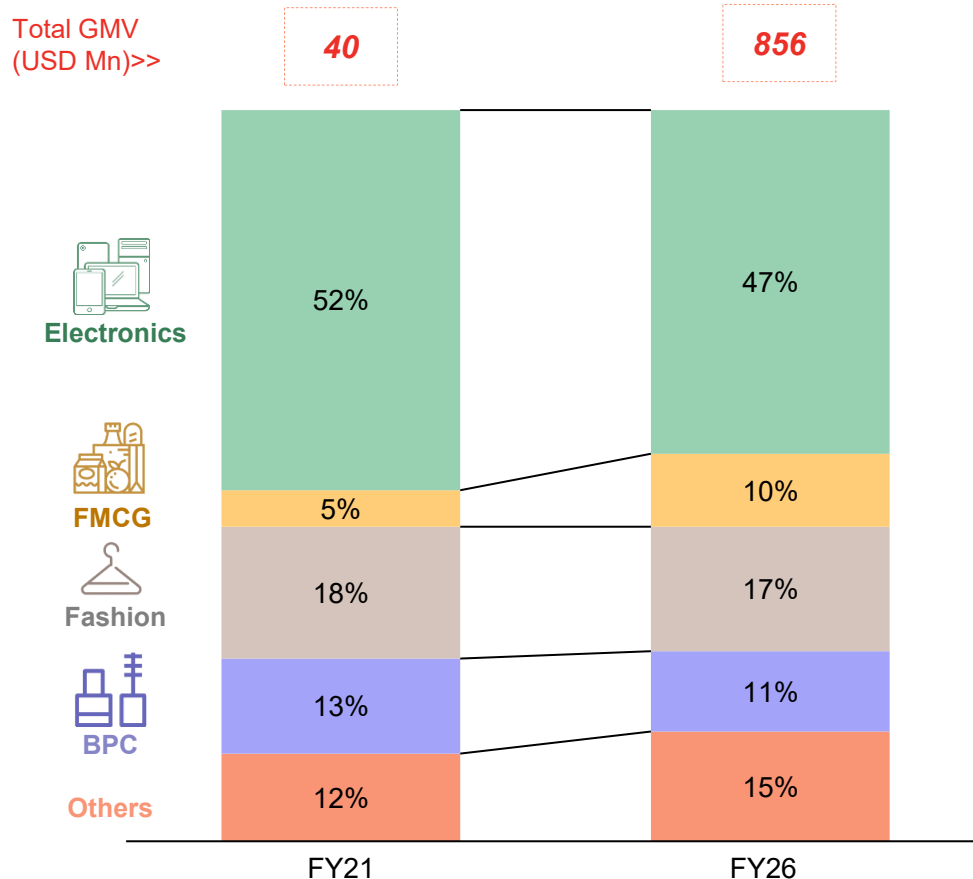
*Note: SAM taken as base figure for FY21 to model future projections

Source(s): Estimates from primary interactions and Redseer analysis

From being electronics heavy in FY21, E-tailing will become more evenly distributed by FY26 as supply and demand eco-system matures

Formal E-tailing GMV by categories

USD Mn, %



Key Takeaways

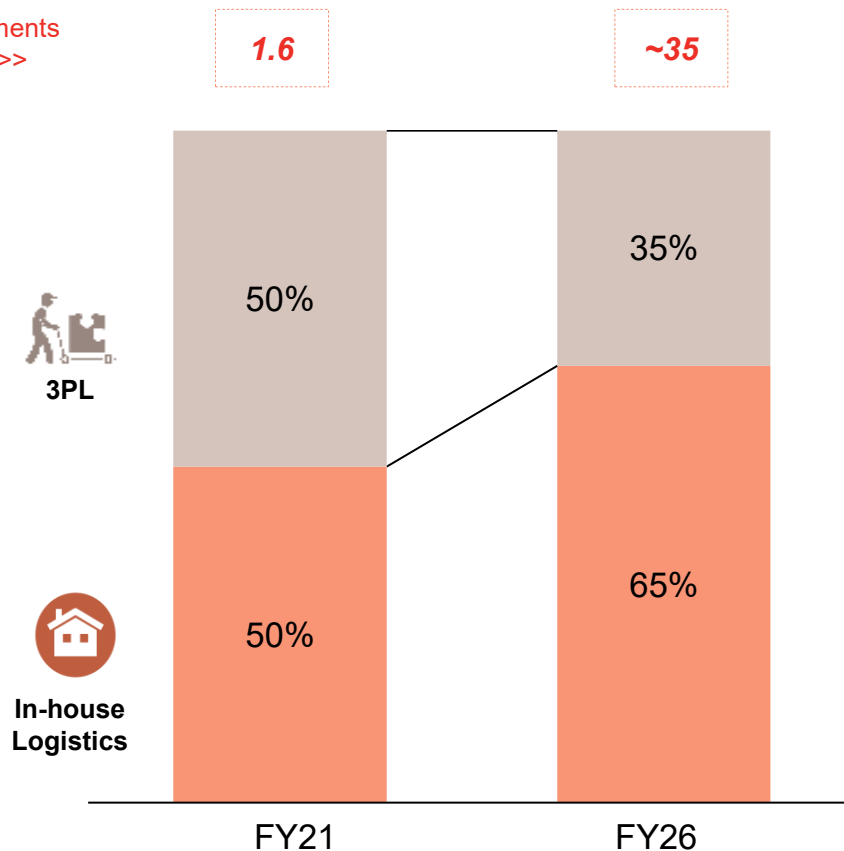
- Among various categories **FMCG is expected to emerge as the biggest gainer**. Online platforms will continue to reap the benefits of developed supply base and online FMCG buying behavior of consumers (*which was originally stoked by COVID-19*)
- **Discretionary spend which took a hit in the wake of pandemic will gradually revive** thus resulting in increasing share of non-essentials like fashion
- As consumers in Nepal become more digitally mature and platforms manage to develop sense of trust among consumers, long tail categories like sports, home décor, automobile spare parts etc will also witness a substantial growth in demand

In-house logistics will steadily increase – however 3PL services will continue to be used for sub urban areas with lesser demand density

E-tailing Shipments by logistics type

Physical Goods

Total Shipments (Mn) >>



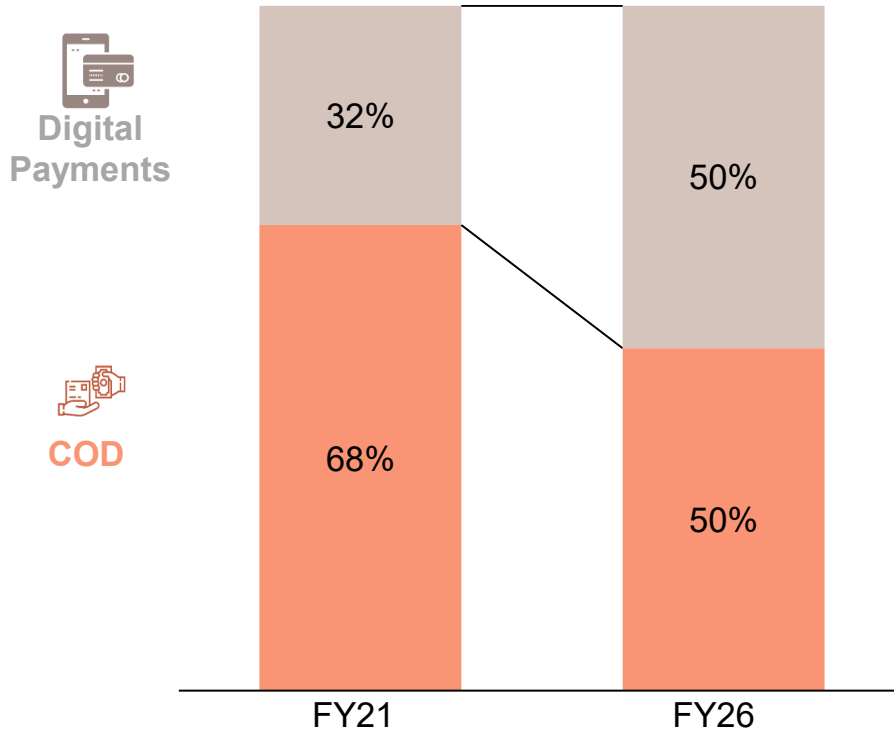
Key Takeaways

- The next wave of growth is expected to come from cities beyond Kathmandu
- Players like Sastodeal and Daraz have started to expand their hubs in Tier II/III cities to build more in-house logistics capabilities
- Their consistent efforts to build warehousing infrastructure beyond the capital is expected to cater to the growing demand in the coming years
- Sastodeal has also partnered with Nepal Post to aid the expansion outside Kathmandu
- For areas with relatively lower demand density, 3PLs will continue to be preferred as they are more cost effective in such a scenario

Share of COD payment would decrease as customers become more digitally mature - however onboarding new users from outside Kathmandu would offset some of this

E-tailing transactions by payment type Physical Goods

Total Transactions (Mn) >>



Key Takeaways

- Share of COD is expected to reduce as customers become more digitally mature and comfortable with digital solutions
- COVID-19 has already helped give a major thrust to adoption of digital payments
- Many eCommerce players are partnering with eWallets – e.g. Sastodeal with IME Pay
- The eCommerce policy also aims to build consumer trust in online payments by strengthening the system and processes

A hand holding a magnifying glass over a laptop keyboard. The magnifying glass is positioned over the keyboard, and the text 'Sastodeal Positioning' is overlaid on a white box at the bottom. A red horizontal line is also present above the white box.

4

Sastodeal Positioning

...enabled by a localised team - which has also been a key differentiator vs other market participants

USP of Sastodeal Team



Home-grown Team

SastoDeal team has a better understanding of Consumer needs and the Overall Market



Strong On-Ground Presence

It is agile and highly organised that helps it provide unmatched service to its customers



High employee Efficiency

It has the highest GMV/Employee in the region
i.e USD █████ per employee

Key Team members



Sodhan Manandhar
CTO & Board Member



Amitesh Roy
CCO



Amun Thapa
Founder, CEO & Board Member



Brahmanand Thakur
CIO



Sumitra KC
CFO



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