

**PRESS RELEASE
DIALOGUE AND DEVELOPMENT COMMISSION OF DELHI
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Delhi's cloud kitchen operators and food delivery aggregators whole-heartedly welcome Kejriwal Government's move to recognise cloud kitchens as an industry and develop a dedicated Cloud Kitchen Policy

DDC Delhi holds stakeholder consultations to discuss the potential role of Delhi government in easing regulations for cloud kitchens, setting up clusters in industrial areas and skilling their workforce

Delhi Government is very hopeful about the growth potential of the concept of cloud kitchens as an industry as its model is low-risk, cost-effective and scalable, allowing for high-profit margins even for players with less capex. We see the prosperity of the whole city in the prosperity of the cloud kitchen industry: Jasmine Shah, VC, DDC

The stakeholder consultations emphasized the importance of earmarking shared cloud kitchen spaces in industrial areas in a way that they offer infrastructure and water and electricity linkages at minimum costs and are at a feasible distance from the residential areas: Niharika Rai, Secretary-Cum-Commissioner of Industries

We really appreciate the efforts of the Delhi Government towards identifying potential challenges for the sector that the government can assist in overcoming to enable scaling up of the segment: Sandeep Kumar Shah, Associate Vice President, Rebel Foods

Cloud kitchen clusters can provide the segment with adequate space to expand within existing industrial areas, access to low industrial power tariffs, possible exemption from dine-in regulations and conversion charges

The number of cloud kitchens in Delhi is growing at a rate of over 20% every year. The domestic cloud kitchens market is expected to grow from \$400 million in 2019 to reach \$1.05 billion by the end of 2023 and \$2 billion by 2024

NEW DELHI

The Dialogue and Development Commission (DDC) of Delhi, in collaboration with the Department of Industries, convened wide-ranging stakeholder consultations with representatives of cloud kitchens and food delivery aggregators on Tuesday evening to seek their inputs for creating a roadmap for growing the cloud kitchen segment in Delhi. The participants welcomed with enthusiasm the decision of Hon'ble Chief Minister Sh. Arvind Kejriwal to recognise cloud kitchens as an industry and resolve to bring out a dedicated 'Cloud Kitchen Policy' and gave several practical inputs to ensure the initiative becomes successful.

The proposal to boost cloud kitchens was first unveiled recently as part of the Kejriwal Government's employment-focused 'Rozgar Budget' 2022-23 which plans to create 20 lakh jobs in Delhi in 5 years. The consultation was aimed at understanding the various pressing

challenges faced by Delhi's cloud kitchen operators and exploring the potential and viability of Delhi Government's intervention in boosting this segment's growth and the associated jobs by easing regulations, setting up clusters in industrial areas and the skilling of their workforce.

The meeting was held in the presence of Sh. Jasmine Shah, Vice Chairperson, DDC Delhi, Niharika Rai, Secretary-Cum-Commissioner of Industries, Prince Dhawan, Special Commissioner, GST, Aman Gupta, Executive director, DSIIDC etc. and was attended by representatives of various organizations like National Restaurant Association of India (NRAI), Zomato, Rebel Foods, Enoki Hospitality, Rolling Plate, NYC Pie, NOMAD Pizza etc. to discuss ways to ensure that the upcoming policy results in positive outcomes for all stakeholders.

Chairing the consultation meeting, Jasmine Shah, Vice Chairperson, DDC Delhi said, "Delhi Government is very hopeful about the growth potential of the concept of cloud kitchens as an industry as its model is low-risk, cost-effective and scalable, allowing for high profit margins even for players with less capex. We see the prosperity of the whole city in the prosperity of the cloud kitchen industry. Even without government interventions, the segment has managed to create a massive industry in a short period of time – offering employment to many and contributing to the economy. When the government and industry stakeholders collaborate together, the segment can witness an unprecedented boom. We want to ease the entire process for the operators – from rents to licensing to providing a skilled workforce."

Sandeep Kumar Shah, Associate Vice President, Rebel Foods said, "It is the first time that a state government has recognised cloud kitchens as significant contributors to the food and beverage industry. We really appreciate the efforts of Delhi Government towards identifying potential challenges for the sector that the government can assist in overcoming to enable scaling up of the segment."

DDC Delhi mooted the idea of setting up cloud kitchen clusters by the Delhi Government in industrial areas. Setting up cloud kitchen clusters could allow many benefits for the operators and consequently, the aggregators and the consumers. Such clusters can provide the segment with adequate space to expand within existing industrial areas with access to industrial power tariff, which is lower than the commercial rates, and possible exemption from dine-in regulations. As the setting up of such clusters would not require a change of land use, they may be exempt from conversion charges as well.

Such clusters can significantly ease the process of setting up the cloud kitchens with the allocated spaces being equipped with several plug-and-play features like power connection, PNG connection, effluent treatment and common facilities like shared cold storage, parking space etc. The stakeholders welcomed the idea, with the suggestion to identify such industrial areas that have regular power supply and are not very far away (< 7km) from residential clusters (to reduce delivery time and costs).

Ms. Niharika Rai, Secretary-Cum-Commissioner of Industries said, "Delhi Government has proposed to help establish more cloud kitchens to generate employment, as a 200 sq. feet cloud kitchen directly employs 10 people on an average as well as create a significant number of indirect jobs in the gig economy. Higher EBITDA margins also mean that the operators may compensate their workforce with better wages. The stakeholder consultations emphasized the importance of earmarking shared cloud kitchen spaces in industrial areas in a

way that they offer infrastructure and water and electricity linkages at minimum costs and are at a feasible distance from the residential areas.” The Department of Industries also invited written submissions of policy inputs from the stakeholders for continuing the engagement.

Sh. Prince Dhawan, Special Commissioner, GST said, “Delhi Government is committed to removing all obstacles within its purview that restrict the growth of the cloud kitchen segment. We want to treat cloud kitchens as a sector in its own right - separate from restaurants and take-aways - to ease regulations and provide plug-and-play spaces to operate out of.”

Sh. Jasmine Shah, Vice Chancellor, DDC Delhi added, “Rationalizing the regulatory processes entailed in running a cloud kitchen will help in the infusion of transparency and reduction in procedural delays in getting statutory clearances. The regulatory and compliance burden on cloud kitchens should be streamlined according to the model of working of cloud kitchens, so that the regulations that have no value to the consumers can be done away with while also reducing the entry barriers for new players in the segment and promoting their Ease of Doing Business (EoDB). We would also like to create a state of the art training curriculum with the collaboration of stakeholders that can provide the skill sets that cater to the specific needs of the cloud kitchen segment.”

Highlighting the need to ease regulations for the segment, Porus Arora, President, Enoki Hospitality said, “The reason people are opening cloud kitchens is because it requires a low budget and allows for speedy set-up. Obtaining these licenses requires a lot of money and the process is lengthy as well, thus defeating the key differentiating factors of the segment.”

Regarding the requirement of a license from Delhi Police to run a cloud kitchen, Sandeep Kumar Shah, Associate Vice President, Rebel Foods said, “The requirement to procure a license from the police was laid down for running an ‘eating house’. But as cloud kitchens do not have customers walking in, public nuisance and the subsequent role of police is not a relevant issue for our establishments.”

Sh. Prakul Kumar, Secretary General, NRAI said, “In the last few years, Maharashtra and Gujarat have amended their laws to exempt restaurants and eateries from obtaining and renewing police licenses to start or run their units. Why should we need a license from Delhi Police to sell a sandwich? If and when a law and order situation does arise, the police would have the inherent power to intervene in any case. Moreover, the compliance is poor with the majority of restaurants in Delhi operating without the Delhi Police license.”

Discussing the Health and Trade License required from Municipal Corporation of Delhi (MCD) by Food Business Operators (FBOs), the participants said that it is a duplication of effort as it serves the same purpose as the FSSAI license i.e. to ensure maintenance of health and sanitation standards. Prakul Kumar, Secretary General, NRAI said, “FSSAI in its letter to various municipal corporations in Delhi in September 2020 had specified that no food licenses are to be separately issued by the municipal offices. Despite the same, the practice has not changed.”

Sh. Sandeep Kumar Shah, Associate Vice President, Rebel Foods also requested that the Delhi Fire Service issue a notification to clarify the regulation norms for cloud kitchens. He said, “The requirement for fire NOC is not applicable for take-away restaurants with an area

of less than 250 square meters. But because the rules do not clearly specify ‘cloud kitchens’ it leaves the operators vulnerable to exploitation by other offices.”

“Our biggest challenge is training employees since we continue to lose employees at a high rate,” said Sh. Varun Malik, Chief Executive Officer, Enoki Hospitality. DDC Delhi also explored the possibility of assisting the skilling of the cloud kitchen workforce through short-term courses/apprenticeship programs in partnership with the Delhi Skill and Entrepreneurship University (DSEU). Many participants sought to partner with DSEU for knowledge sharing as well as for hiring their employees. To ease the process of finding a workforce, the stakeholders were also encouraged to use ‘Rozgar Bazaar’ - Delhi Government’s job-matching platform for entry-level jobs – which is set to soon be revamped with new advanced features like smart matching, employer verification, placement tracking, automated analytics services etc.

Cloud kitchens or virtual kitchens are different from the regular brick-and-mortar F&B establishments, as they serve as delivery-only kitchens, take orders via their own app or online food aggregators and also have the capability to operate as multiple food brands. Setting up cloud kitchens entails lower capex than the traditional dine-in and quick service restaurants due to lower property tax, rentals and setup costs (for equipment, furniture, etc.) While launching a traditional restaurant is a high-risk venture that requires a strong market capital, cloud kitchens are a low-risk venture as they can operate at a fraction of a traditional restaurant space thus increasing their EBITDA profit margins.

Moreover, cloud kitchens are also able to garner increased visibility despite less marketing spending due to quick exposure through online delivery apps. The digital business model enables them to easily gather valuable data insights about customers so they can adapt accordingly to ensure quick and efficient service. Ensuring quality standards is also easier in cloud kitchens as opposed to dine-in restaurants where surface exposure is high due to seating and customer walk-ins. Doorstep delivery witnessed a boom during the lockdowns and constituted a significantly larger percentage of revenue than dine-in, with even traditional restaurants pivoting to focus on cloud kitchen setups and mitigate the fall in dine-in sales.

There are over 20,000 cloud kitchens currently active in the city, which provide substantial direct and indirect employment, and the number of cloud kitchens in Delhi is growing at a rate of over 20% every year. The domestic cloud kitchens market is expected to grow from \$400 million in 2019 to reach \$1.05 billion by the end of 2023 and \$2 billion by 2024 according to a report by RedSeer Management Consulting.