CHAPTER - I

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1.1 INTRODUCTION

In the ever changing world, corporate governance has its own importance. Successful financial management of company give certain benefits like, increase in profitability, raising share prices, regular dividend to share holders, attractive remuneration to employees, scientific management, provision of adequate finance, effective marketing, Government financial and industrial policy, incentives etc. plays vital role for healthy existence of industries.

The Indian economy is mixed economy. Private and public sectors have played a greater role in overall development of the country. The last decade has seen enormous expansion in the industry in India. Especially private sector has shown galloping growth. We achieved GDP growth rate 9.5% in financial year 2007-08. But crisis in the world’s financial system has affected adversely the dyes and pigment industry. Economic and financial crises compel to review its policies and improving productivity and competitiveness. Companies have to improve their productivity constantly and competitiveness to minimize the adverse effects of economic and financial crises. The Indian economy affected from the global financial crisis that stated in August 2007. The slowdown has been seen in all major sectors manufacturing and sales.

There are various reports of negative growth in respect of Dyes and Pigment Industry, Chemical Industry, Construction Industry, Automobile Industry, Auto Component Industry, Textile and Garment, Gems and Jewelry, Leather Industry etc. The current global economic crises have affected dyes and pigment industry as well and there is an impact on financial result of the companies. Many companies have reduced its manufacturing and sales due to global economy slump. Economic growth rate became lower due to bearish trend seen in 2008-09. GDP growth rate was 7.10 % in the year 2008-09.

Vapi is famous for its dyes and chemical industry on the world map. South Gujarat that traditionally had a textile oriented economy.
Textile industry is main user of dyes. This was the beginning, a fairly good beginning that gave me interest in these industry.

The modern dye and pigment industry is built upon coal tar industry as it source of material, and the Kekule Benzene theory as its scientific basis. Without these foundations, the dye industry could not have been developed.

The last fifty years have seen a very large increase in the number of raw materials for the dyes and pigment industry. Benzene, toluene, xylene, naphthalene and anthracene have added many new compounds. With increasing demand of the dye, the purity of the raw material has improved. Modern methods have permitted the direct manufacturer of pure compound by fractional distillation and fractional crystallization. These improved techniques of coal tar industry. They constitute foundation for the manufacturers of the dye and pigment industry. The basic objective of this study is to analyse the growth and financial performance of selected dyes and pigment industrial units in Gujarat.

1.2 MEANING OF INDUSTRY

The term industry covers all the business and factories that convert raw material in to goods or that provide useful services. Industries produce all the goods and services required by society and distribute them to customers and all the factories, mills and other enterprises that produce consumable and industrial goods. It is a place or premises where production of goods and services takes place. In an industry production is carried out with power driven machines. In a modern industry, automatic machines undertake production. Industry means, any department or branch of art, occupation, or business; especially, one which employs much labour and capital and is a distinct branch of trade, as the sugar industry, the iron industry, the cotton industry. Human exertion of any kind employed for the creation of value and regarded by some as a species of capital or
wealth. Labour Industry is the organized action of making of goods and services for sale.

The term industry has different meaning to different people. For a manufacturer, it implies the various processes involved in manufacturing a product. For a historian, it signifies the evolutionary stages of mechanization in the production process. For an economist, it amounts to the distribution of income that the industry earns to the various factors of production. For a politician it stands for framing legislation governing various aspect of an industry. For an entrepreneur, setting up an industry is an opportunity for earning profit and rendering tangible service to the social community. For an employee, industry amounts to source of earning his livelihood. For a manager, industry constitutes a how to take is as a challenge, creating something new and how to do better. For a customer, an industry is a source of getting most of the product required for day to day living. For an environmentalist, an industry is threatening places that pollute the atmosphere.

As per function, industry where raw material converts in to finished goods efficiently and economically. Efficiency in production is measured by the quantity and quality of goods produced and economy in production is measured by the minimum cost at which goods are produced.

1.3 INDUSTRIALISATION

Mr. Pei-Kang Chang, while defining Industrialisation as a process in which changes of series of a strategically production functions are taking place. It involves those basic changes that accompany the mechanization of an enterprise, the building of new Industries, the opening of a new market and the exploitation of new territory. This is in a way, a process of deepening as well as widening of capital. (1) It is a process in which changes of a series of strategically production functions are taking place, analysis the concept of strategically production functions by referring to the history of the past centuries.
Industrialization is generally used in two different meanings. In the narrow meaning, it refers to the establishment and development of the production. In the broad meaning, it refers to the completion of the industrial revolution and the transfer of the economy to industrial method of production. The effect of Industrialization can be grouped into the following headings:

1. Structural changes in the economy
2. Beneficial effect on agricultural development.
3. Rise in the per capita income.
4. Changes in the pattern of foreign trade
5. Changes in the social environment.

1.4 NATURE OF INDUSTRY IN GUJARAT STATE

The industrial units are mainly situated in big cities like Ahmedabad, Baroda, Surat, Bharuch, Rajkot, Bhavnagar, Jamnagar, Vapi and Ankleshwer. In all this areas industrial development could be achieved due to the incentives provided by the Government in industrial policy. Moreover, the State Government has also established District Industry Centre, Gujarat Industrial and Technical Consultancy Limited, Industrial Extension Bureau and Centre for Entrepreneur Development. The Government of India has implemented the liberalised industrial policy from July 1991. As a result, there was total change in industrial scene of all the states. The Gujarat Government has declared comprehensive industrial policy in July 1995 for balanced regional industrial development. The State Government has continued to take measure for encouraging new investment in the state. Gujarat Industrial Development Corporation has developed industrial estates. The State Government has formed a Gujarat Infrastructure Development Board (GIDB) under the president ship of Chief Minister. The Government has constituted an eleven member expert committee to prepare ‘Vision 2010’. Its main objective is to achieve goals set out in different industrial policy. At present, some sector like chemical, fertilizers, petro-chemicals, paints and
intermediates, pharmaceutical salt, milk, and dairy products, Gujarat occupies a leading position in India.

There are different industrial estates which have a number of Industries of different nature. Nature of Industry in Gujarat State can be classified as under.

1. Engineering Industry
2. Dyes and Chemical Industry
3. Electronics Industry
4. Textile Industry
5. Cement Industry
6. Electricity Generation and Supply
7. Construction
8. Sugar Industry
9. Food Processing Industry
10. Rubber and Rubber Product Industry
13. Hotel Industry
14. Service Industry
15. Mineral Based Industry
16. Forest Based Industry
17. Livestock Based Industry

1.5 MEANING OF DYESTUFFS AND ITS CLASSIFICATION

1.5.1 MEANING OF DYES

Dyes are a coloured substance that can be applied in solution or dispersion to a substrate, giving it a coloured appearance. Dyes or Dyestuffs are coloured substance capable of imparting their colours fast to the fibers. Thus, a substance may be called dyes, if it satisfies the following conditions.

1. It must have a suitable colour. It must be capable of being fixed to the fabric directly or indirectly.
2. When fixed, it must not be fugitive and it must be resist soap and water. Colour cannot be removed by rubbing and washing.
The colours used to make cloth, paper, plastic, heir, leather, edible etc. colourful are called dyes. Dyes mixed with the threads of the cloth through strong chemical connection and give fast colour to the fabric. This fast colour is not affected either by soap detergent or bleaching. The process of applying colour is called dyeing and it gives a fast colour to the fabric. Dyes used as a food colour should harmless for humans. Food-colours are therefore strictly restricted for use by law.

The first synthetic dye was prepared by W.H. Perkin in 1956, while he was trying to prepare quinine, on crude aniline sulphate. Incidentally he found a dark black precipitate, instead of quinine. These dyes, commonly as ‘Mauve’ contained mainly N-phenyl phenosafranine and its homologue.

1.5.2 **CLASSIFICATION OF DYES**

Dyes are classified from both source and the application view points.

(a) **Classification of Dyes Based on Source**

1. **Natural Dyes**
In ancient time, people used natural dyes that received from animal, human organs and vegetable sources. In nature, indigo (a blue dye) obtained from leaves of indigo plant. The Turkey red dye called alizarin is also obtained from the root of madder plant. Yellow dye saffron obtained from the dried flowers. Natural dyes can be found only in limited quantities from plants.

2. **Synthetic Dyes**
At present, most of the dyes are synthetic obtained from coal tar of petroleum such as benzene, phenol, aniline, naphthalene, Xyline anthracene etc. Thus, synthetic dyes can be prepared from aromatic compounds found in coal tar. For example, Congo red and malachite green are synthetic dyes.
(b) **Classification of Dyes Based on Application**

Classification of dyes based on application is mainly concerned with the different methods of dyeing to various fibers with the different dyes.

1. **Acid Dyes**

   Acid dyes are generally sodium salts or phinolic compounds (called colour acids). Acid dyes are used to colour synthetic and natural (animal) polyamide fibers like wool, silk or nylon. It gives fast colour to fabrics in acidic conditions. Orange I, Orange II, Methyl red and Congo red are acid dyes.

2. **Basic Dyes**

   Amino (-NH$_2$) and substituted Amino (-NR$_2$) are called the basic dyes. These dyes form solute salt in water with Acid. This dyes mostly applied to colour paper, nylon, cotton and polyester fibers. Solvent basic dyes have also been used in writing and printing inks. Aniline yellow, chrysodin, malachite and green are basic dyes.

3. **Direct Dyes**

   These dyes are water-soluble. These dyes are used to colour animal and vegetable fibers as well as synthetic fibers like cotton, rayon, wool, silk and nylon. These dyes also called salt dyes. These dyes combined with water by hydrogen bonds. Congo red, direct black, and martius yellow are direct dyes.

4. **Disperse Dyes**

   These dyes are insoluble in water. They diffuse into the fabric in the form of minute particles of a suspension. A dry heat or thermosol process to the polyester fibers has also applied them. The dyes are used for dying synthetic fibers like nylon, polyester, and polyacrylonitrile. Cellitone fast pink B and fast blue B are disperse dyes.
5. **Vat Dyes**

Indigo and Indigosol are vat dyes. Vat dyeing is best method of dyeing cotton with natural dyes Indigo. The dyes are insoluble in water but their reduced form is soluble in alkali solution. When fabric dipped in to in the alkaline solution of reduced vat dyes, the Leuco compound is absorbed in woolen or cotton fabric and finally on drying in air oxidises by oxygen of air, gives blue colour of indigo to the fabric. Vat dyes are fast and obtained in various attractive shades.

6. **Fiber Reactive Dyes**

The reactive group of this dyes combined by chemical bond with the hydroxyl (-OH) or Amino (-NR$_2$) group of fibers. Impregnation by padding and dyeing in dye bath are used for dyeing fiber with reactive dyes. Dyeing in dye bath with reactive dyes can be performed in cold, in presence of relatively high concentration of NaCl (sodium chloride). These dyes used to colour cotton, silk and wool fibers.

7. **Insoluble Azo Dyes**

Azo dyes include all classes of dyestuffs, such as acid dyes, direct dyes, mordant dyes, naphthol dyes etc. Almost 60% of dyes are obtained by coupling phenols, arylamines, aminonaphthols absorbed on surface of a fabric with a diazonium salt. These dyes do not give fast dyeing. Cotton, silk, nylon, polyacrylonitrile are dyed with these dyes. These dyes used to produce chemical reaction in biology. Methylene blues, para red are these dyes.

8. **Mordent Dyes**

Metal – ion is called mordent. These dyes are used to dyeing wool. Wool is wetted with solution containing metal – ions, so that metal – ions binds with wool and mordent dye acting as ligand co-ordinates to metal-ions. Alizarin is a mordent dye. Metal – ions Al$^{3+}$, Ba$^{2+}$, Cr$^{3+}$, Mg$^{2+}$, Sr$^{2+}$ gives pink, blue, brown red, violet and red colours in presence of alizarin.
1.6 MEANING OF PIGMENT AND ITS CLASSIFICATION

1.6.1 MEANING OF PIGMENT

Pigments are various organic and inorganic insoluble substances, which are widely used in surface coatings. They are used in the paints, ink, rubber, plastic, ceramic, paper and other material to impart colour. Pigment is a powdery substance that gives colour to other materials. In paint, the pigment is a powdered substance. When it is mixed in the liquid vehicle, imparts colour to a painted surface. The pigments used in paints are nearly all-metallic compounds, but organic compounds are also used. Paints are mechanical mixtures of one or more pigments. Most black pigments are organic. For example, bone black (animal black or charcoal) and lampblack. Coloured pigments consist of Prussian blue, Lead chromate and different iron oxide.

Some of the metallic pigments occur naturally. Such compounds, chiefly oxides, largely produce the brilliant and beautiful colouring of the rock and soil in some parts of the United States. Yellow ocher, sienna, and umber are oxides of iron. Now, we are producing large number of pigments. Titanium dioxide is most important white pigment. The main black pigments are carbon black, graphite, and lamp black. Litharge is a yellow oxide of lead. Red lead is also an oxide of this metal. Lead chromate, or chrome yellow, is an important yellow pigment. White lead, or basic lead carbonate, is a more durable pigment in use. Cadmium yellow is a sulfide of cadmium. Ultramarine is an important blue pigment. Mixing Prussian blue and chrome yellow produces green pigment. After independence, India has started production of pigment like, Titanium Dioxide, Chrome pigment, Ultramarine blue, phthalocyanine, Prussian blue, Zinc chrome basic lead sulphate and metallic pigments.

Pigments occur in plant and animal bodies. Many biological structures, such as skin, eyes and hair contain pigments, the bright colours like green and yellow of plants, are the result of the presence of such substances, which are also found in some animals. Among others, carrots and certain other vegetables imparts blue, red, and purple colour to flowers. Blood receives its colour from the hemoglobin in the red corpuscles. Coloration of human skin is caused by the presence of pigments.
1.6.2 CLASSIFICATION OF PIGMENTS

(A) **Organic Pigments:**

1. Heme/Porphyrin based: Chlorophyll, Bilirubin, Hemocyanin, Hemoglobin, Myoglobin
2. Light-emitting: Luciferin
3. Lipochromes
   a. Carotenoids: Alpha and Beta carotene, Anthocyanin, Lycopene, Rhodospin.
   b. Xanthophylls: Canthaxanthin, Zeaxanthin, Lute in
4. Photosynthetic: Chlorophyll, Phycobilin
5. Organic: Pigment Red 170, Phthalocyanine, Phthalocyanine Green, Phthalocyanine Blue, Alizarin, Alizarin Crimson, Crimson, Indian Yellow, Indigo, Quinacridone, Quinacridone Magenta, Woad.
6. Resin: Gamboge
7. Polyene Enolates: A class of red pigments unique to Parrots.
8. Other: Hematochrome, Melanin, Phthalocyanine blue, Urochrome, Van Dyke brown.

(B) **Inorganic Pigments**

1. Carbon Pigments: Bone black (also known as bone char), Carbon black, Ivory black, Vine black, Lampblack, and Mars black.
2. Cadmium Pigments: Cadmium pigments, Cadmium Green, Cadmium Red, Cadmium Yellow, and Cadmium Orange.
4. Chromium Pigments: Chrome Green, chrome yellow.
5. Cobalt Pigments: Cobalt blue, Cerulean blue.
7. Copper Pigments : Paris Green, Verdigris.
8. Titanium Pigments : Titanium dioxide, Titanium white.
                 Shade, French Ultramarine, vermilion.

A distinction is usually made between a pigment and dyes, pigment is insoluble form, and dyes, which is either a liquid, or is soluble. A certain colorant can be both a pigment and dyes depending on in which vehicle it is used. In some cases, precipitating a soluble dye with a metallic salt will make a pigment.

The pigment Industry is usually associated with paints. Large numbers of pigments are manufactured for commercial preparation of paints. After independence, the production of different pigment has already been started.
1.7 CONCEPTUAL FRAMEWORK

1.7.1 MEANING OF FINANCE

Finance is regarded as the life ‘blood’ of a business enterprise. This is because in the modern money – oriented economy, finance is one of basic foundations of all kinds of economic activities. It is the master key which provides access to all the sources for being employed in manufacturing and merchandizing activities. It has rightly been said that business needs money to make more money. However, it is also true that money be gets more money, only when it is properly managed. Hence, efficient management of every business enterprise is closely linked with efficient management of its finances.

Finance comes directly from the Latin word “finis”. In general, finance may be defined as the provision of money at the time it is wanted. However, as a management function it has a special meaning. Finance function may be defined as the procurement of funds and their effective utilization. Some of the authoritative definitions are as follows.

“Business finance can broadly be defined as the activity concerned with planning, raising, controlling and administrating of the funds used in the business.”

“Finance is a specialized function field found under the general classification of business administration.”

– John Hampton

From the various definitions of the term finance or business finance give above it can be concluded that finance requires overall knowledge of the environment in which it is needed considered as a whole. Finance may be said to be the circulatory system of the economic body, making possible the needed co-operation between many units of activities.

Business finance is that business activity which is concerned with the acquisition and conservation of capital funds in meeting financial needs and overall objective of a business enterprise.
Financial management is broadly concerned with the acquisition and use of funds by a business firm.

Thus, financial management includes – Anticipating Financial need, Acquiring Financial Resources and Allocating Funds in Business (i.e. three A’s Financial Management).

Financial decision involves the decision on the availability of finance ratio of capital and debt, investment of capital in short term and long term assets. Financial decisions are thus very crucial and important decisions for the firm. The main function of finance department is to tackle the day to day financial requirement and other short term and long term expenses.

1.7.2 MEANING OF FINANCIAL MANAGEMENT

There are many kind of management requires in the business for overall objectives of the firm but finance management requires great caution and wisdom on the part of management. Finance management means money management. Finance management concerned mainly with raising funds in the most economic and suitable manner.

“Finance management is the operation activity of a business that is responsible for obtaining and effective utilizing the fund necessary for efficient operations.”

– Joseph and Massie

“Finance management is an area of financial decision making; harmonizing individual motives and enterprise goals.”

– Weston and Brigham

“Finance management is the application of the planning and control functions to the finance function.”

– Archer and Ambrosivu

Thus, financial management is mainly concerned with the proper management of funds.
1.7.3 MEANING OF FINANCIAL PERFORMANCE

There are many different ways to measure financial performance. In financial performance, all financial measures should be taken in aggregation and company’s ability to generate new financial resources from day to day operations over a given period of time. This term is also used as a general measure of a firm’s overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial performance is a devise to evaluate the financial functioning in the company. Financial performance has greater importance in corporate decision making. The capabilities of a management especially observed in particular condition to what extent investment is profitable.

1.7.4 MEANING OF FINANCIAL STATEMENT ANALYSIS

The term ‘Analysis’ refers to rearrangement and simplification of data given in the financial statement. The analysis is done by establishing the relationship between the items of the balance sheet and profit and loss Account. Financial analysis refers to an assessment of the viability, stability and profitability of a business, sub-business or Company. It is a process of examining and comparing figures financial and non-financial, Internal and external data. Analysis refers to the proper arrangement of financial data. Analysis of financial statements means an attempt to determine the significance and meaning of data presented in financial statements. Such an analysis makes use of various analytical tools and techniques to data of financial statements so as to derive from them certain relationships that are significant and useful for decision making. It is performed by professionals who prepare reports using ratios that make use of information taken from financial statements and other reports. These reports are usually presented to top management as one of their basis in making business decisions. Based on these reports, management may:
1. Continue or discontinue its main operation or part of its business.
2. Make or purchase certain materials in the manufacture of its product.
3. Acquire or rent/lease certain machinery and equipment in the production of its goods.
4. Issue stocks or negotiate for a bank loan to increase its working capital.
5. Other decisions that allow management to make an informed selection on various alternatives in the conduct of its business.

Methods may involve simpler accounting-style lists of benefits and costs on spreadsheets. Larger and riskier decisions with many intangibles may require more rigorous methods like Applied Information Economics.

Moore and Jaedicke have defined financial analysis as process of synthesis and summarisation of financial operative data with a view to getting an insight in to the operative of a business enterprise.

Metcalt and Titard have defined financial analysis as Process of evaluating the relationship between component parts of financial statement to obtain a better understanding of a firm’s position and performance.

**Techniques of Analysis of Financial Statements**

In order to analyse, evaluate and interpret the data in financial statements, Following methods are useful for analysis of financial statement.

- Comparative Financial Statements
- Common - Size Financial Statements
- Trend Analysis
- Fund Flow Analysis
- Cash Flow Analysis
- Du-Pont Chart Analysis
- Financial Ratio Analysis
1.7.5 MEANING OF INTERPRETATION

Interpretation is the next step of analysis. It is a critical examination of analysed financial transactions so that a forecast may be made. Analysis is a process of converting complicated data into a simple one. Process of comparison of various components and examination of theirs content is called interpretations. We can derive useful and definite conclusions about the earning, capacity, efficiency, profitability, liquidity, solvency, trends etc. Analysis and interpretation are closed connected and inter-related. It is very difficult task to draw a definite line of difference between them, because analysis becomes useless if the results of the analysis are not properly interpreted to form an idea about performance of company.

Robert H. Wessel has defined analysis and interpretation of financial statement as “a Technique of X-raying the financial position as well as progress of a company”.

1.7.6 OBJECTIVES AND IMPORTANCE OF FINANCIAL STATEMENT ANALYSIS

Financial statements may be used by managements to take different decisions. The analysis of financial statements is useful in assessing the profitability and efficiency of business. The basic objective of the FSA is to understand information contained in financial statement. To know strength and weakness of the company and forecast about the future prospects of the company. The objectives of FSA may be classified as under:

1. **Judging Profitability:** To evaluate the present and past profitability and operating efficiency of a company as a whole as well as its different departments.

2. **Trace out importance of components:** To trace out importance of different components of financial statements.

3. **Reasons for changes in profitability:** To know the reasons for changes in profitability and financial position.
4. **Judging Liquidity:** To assess the short term and long term liquidity position of the firm. Trade creditors and bankers assess the liquidity of company before granting loan or credit facility.

5. **Judging solvency:** To assess the ability of a company to meet its long term debts. Financial institutions, debenture holders and creditors judge the solvency of company before lending money or material.

6. **Forecasting and budgeting:** Analysis of financial statement of previous years help in forecasting of future.

7. **Judging the Efficiency of management:** Performance and efficiency of management can be easily judged by analysing the financial statement. Financial analysis shows whether resources of firm are being used successfully.

8. **Inter firm comparison:** Inter firm comparison can be made easily by analysing the financial statement.

### 1.7.7 LIMITATIONS OF FINANCIAL STATEMENT ANALYSIS

Financial statements analysis suffers from certain limitations. Which are given below.

1. **Historical Data**

Financial Statements analysis shows historical data what happened in the past. These analyses do not show future of firm.

2. **Analysing only monetary transactions**

We can analysis only monetary translations by financial statements but there are many qualitative factors that cannot be analysis in monetary terms for example, efficiency and loyalty of employees and officers, Good management of managing director, good company policy etc, are not recorded in monetary terms. These factors increase the profitability of firm.
3. **Influence of personal Judgment**
The financial statements analyses are influenced by the personal judgment or decision. For example, method and rate of depreciation, provision for bad debts depends on the judgment and past experience of analyst or Accountant. Thus, quality of the financial statement depends on responsible person for preparing these statements.

4. **Effect of Accounting concepts and convention**
The values of assets and liabilities are to be affected by the various concept and conventions of accounting. For example, concept of the going concern concept and convention of conservation the figures of balance sheet do not show the present or market value of different assets and liabilities.

5. **Ignorance Social cost**
Every business has social responsibilities. Financial statement analysis does not highlight the social cost of its activities. For example, water pollution, air pollution, land pollution, diseases, work injury etc. are social cost of manufacturing company.

6. **Ignorance of Human Resources**
Without human resources, business cannot run. Financial statement analysis excludes the human resources. Human resources are very important asset of a business organisation.
1.8 CONCLUSION

The Gujarat dyes and pigment industry was not sound in its earlier stage. In 1991-92 was almost stagnant. The process of Industrial Policy reforms initiated since July 1991 and continued thereafter. A good response in dyes and pigment industry can be visualized under liberalization, privatization and globalization (LPG). Due to overhaul of the excise tax structure, further rationalization, reduction of custom duties, deregulation of bank lending rates, and delicensing that increased the growth of dyes and pigment industry.

The district of Vadodara in central Gujarat and districts of South Gujarat which include Bharuch, Narmada, Surat, Navsari and Valsad are major economic zone of Gujarat state and most of the dyes and pigment industry are situated in these districts. Bharuch, Ankleshwer and Vapi are emerging as a global industrial hub particularly in field of dyes – pigment and other chemical Industry. Valsad district has two major towns, Valsad and Vapi. Valsad is a district head quarter and Vapi a highly industrial area. Roughly 21 km. of Daman –Vapi – Silvassa has almost monolith of industrial activity.
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