



LITIGATION

Supreme Court Rejects ‘Vote-Cast-First’ Rule: Only Lawfully Authorised Representatives Can Exercise Corporate Voting Rights

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Upholding Authority Over Chronology in Corporate Governance

In a significant ruling on corporate governance and the exercise of shareholder voting rights, the Supreme Court has held that when rival factions within a society claim authority to vote on behalf of that society in a company's Annual General Meeting (AGM), the validity of the vote cannot be determined merely by who voted first. Instead, the decisive factor is whether the vote was cast by a person **lawfully authorised** under the society's governing documents and the statutory framework regulating corporate voting.

A Bench comprising Justice Vikram Nath and Justice Sandeep Mehta delivered the judgment in *Hindustan Medical Institution v. Birla Corporation Limited & Ors.*, setting aside a contrary view adopted by the Calcutta High Court.

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Background of the Dispute

The case arose from competing claims over the authority to exercise **voting rights** attached to shares held in Birla Corporation Limited by three societies:

- Hindustan Medical Institution
- Eastern India Educational Institution
- Belle Vue Clinic

Internal disputes within these societies led to the emergence of rival groups, each claiming to be the **legitimate governing body** authorised to nominate representatives and exercise voting rights at the company's Annual General Meetings.

As a result, conflicting claims were made regarding who was entitled to cast votes on behalf of the societies in corporate decision-making processes.

The High Court's "Vote-Cast-First" Approach

To address the immediate conflict, the Calcutta High Court adopted an **interim mechanism** under which the vote cast first in time on behalf of a society would be accepted by the scrutiniser and treated as valid.

Under this approach, priority was given to the earliest vote cast, irrespective of whether the individual voting derived authority from the society's Board of Trustees, Managing Committee, or any other governing body.

The High Court effectively treated **chronology** as the determining factor for resolving disputes relating to voting authority.

Supreme Court Finds the Approach Legally Unsustainable

The Supreme Court strongly disagreed with the High Court's methodology and held that such an approach **lacks any basis in corporate or statutory law**.

The Court observed that the legal framework governing electronic voting under the Companies Act, 2013 and the Companies (Management and Administration) Rules, 2014 does not recognise the principle of "first vote prevails."

Instead, the law requires that a vote be cast only by a person who is **duly authorised** to act on behalf of the shareholder.

Where rival individuals claim authority to represent the same juristic entity, the question that must be examined is not who voted first, but who possessed lawful authority to vote.

The Court noted that accepting the first vote merely because it was cast earlier would amount to **substituting chronology for legality and authority**.

Authority Must Flow from Governing Documents

A central theme of the judgment is that societies, being **juristic entities**, can act only through persons authorised under their constitutive documents.

Accordingly, when competing factions seek to exercise voting rights on behalf of a society, courts and scrutinisers must determine:

- Which body within the society is empowered to authorise voting
- Whether the authorisation complies with the society's governing rules and regulations
- Whether the representative was validly nominated
- Whether the exercise of voting rights conforms to the **statutory framework** governing company meetings

The Court emphasised that internal governance structures cannot be ignored merely because one faction managed to cast its vote earlier than another.

Interpretation of the Companies Act Framework

The Supreme Court further explained that the statutory regime governing **remote e-voting** is designed to ensure certainty and finality.

While the law prevents a shareholder from changing or recasting a vote once a valid remote e-vote has been exercised, it does not create a legal presumption that the first vote cast is automatically valid.

The prohibition against multiple voting operates only after it has been established that the initial vote was cast by a **duly authorised representative**.

Therefore, where the authority of the voter itself is under challenge, the question of validity must be resolved by examining the **source of authority** rather than the timing of the vote.

Impact on Corporate Governance

The judgment has important implications for companies, scrutinisers, and shareholder institutions.

It reinforces the principle that voting rights attached to shares are **valuable corporate rights** that must be exercised through legally authorised representatives.

Companies dealing with institutional shareholders, trusts, societies, and other juristic entities must ensure that voting instructions originate from persons possessing valid authority under the relevant governing documents.

The decision also discourages **tactical attempts** by rival factions to gain an advantage by casting votes before competing claimants.

Supreme Court Allows Appeals

Finding the High Court's direction contrary to the statutory framework and established principles of corporate governance, the Supreme Court **allowed the appeals** and set aside the "vote-cast-first" rule.

The Court held that the validity of a vote cast on behalf of a society must be determined on the basis of **lawful authority** and not on the basis of chronological priority.

Conclusion

The Supreme Court's ruling marks an important clarification in the law relating to shareholder voting and corporate governance. By rejecting the "vote-cast-first" methodology, the Court has reaffirmed that **legality must prevail over convenience and chronology**.

Where rival groups claim authority to represent a society, the decisive inquiry is not who acted first but who acted lawfully.

The judgment strengthens the integrity of corporate decision-making by ensuring that voting rights are exercised only through **duly authorised representatives**, thereby safeguarding both corporate governance standards and the rule of law.

For any further details write to contact@indialaw.in

Case Details

Case: *Hindustan Medical Institution v. Birla Corporation Limited & Ors.*

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